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# **China**

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# China

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## GENERAL

### Speculation on Changing World Military Situation

90CM0167A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 8, 23 Apr 90 pp 22-23

[Article by Li Qingshan (2621 1987 1472): "Impact of the USSR-Eastern European Changes on the Global Military Situation"]

[Text] The rapidly changing situation in the USSR and Eastern Europe has exerted an enormous impact upon the system that resulted from the Yalta Conference. The unification of the two Germanys is accelerating and the forces of NATO and the Warsaw Pact are preparing to have a "reciprocal sky glasnost." Internally, each has become more and more relaxed. All this creates a great impression upon the world military situation. In the long run, the situation in the USSR and Eastern Europe will have the most profound effect upon the world military situation since World War II. Chief among these are:

1. The focus of military preparedness will shift from present to future. As of now and for a long time to come, with the continued moderating of East-West relations, factors contributing to a major war continue to decline in importance. The various nations will ponder more about strategic initiatives of the distant future. One of these would be the development of nation-groups with high technology to boost basic military power. Many nations now feel that, in military preparedness, the means are lagging far behind the will. Meeting very tough economic technical problems, they feel that, unless production power is increased and economic policy revised or reformed so that technology is effective, not only will military preparedness lag behind, but national power in toto will be weakened. For this reason, if high technology is the priority goal, then overall national strength must be increased. At present, a number of countries are in the process of getting their national defense programs in order. In the arena of high technology, primary attention is paid to such areas as energy, aerospace, nautical engineering, nuclear energy, communications, electronics, and so on, in close coordination with new generations of military hardware. It is predicted that there will be a series of breakthroughs in technical military equipment at the beginning of the next century. In defense economics, as it undergoes a gradual draw-down, those funds that can be expended without adversely impacting upon military power are being devoted more and more to those items that would more likely come to play in the next century. Second is reducing troop strength and raising quality. A number of major powers will continue to reduce numbers and weaponry, streamline structure and improve ordnance. After the United States and the USSR reached the accord on ICBM's, a reduction of 50 percent in strategic nuclear weapons and reducing active army strength also made progress. Each side now prepares to cut back to about 200,000 their troop strength in Europe while similarly cutting back men and installations in Asia,

Africa, and elsewhere. Furthermore, in the next few years, there are plans to reduce overall numbers to about 3 million. At the same time, emphasis will be placed on developing small-scale or light rapid-reaction forces that they can "react effectively to various degrees of conflict." But the U.S. and Soviet cutbacks are not merely to "reduce." To a degree, they are to "increase" or "enhance." The reduction in strategic missiles complements development of new offensive strategic weapons and counter systems. For example, land-based ICBM's now emphasize mobility and increased survivability. Greater accuracy, closer range, and multiple warheads are the goals for submarine-launched missiles. Strategic bombers will completely adopt stealth technology to increase the capability to penetrate defenses and to attack from a shorter distance. Intelligence on the subject reports that in the 1990's, the United States and the USSR will go through a complete change in strategic weaponry. Standing armies will feature greater mobility, shock offensive power, and defense as well. In addition, "space warfare" plans will proceed as planned, such as the U.S. "Brilliant Pebble" Space Defense System, the Soviet "Aerospace Program," Europe's Eureka Plan, Japan's "Plan for Study of Man's New Territory." All are geared to utilize new technology and new intelligence to increase survivability at the lowest cost. Third is the rapid buildup of reserve forces. In the gradual reduction of probability of war at present and in preparation for the future, reducing active strength and increasing reserve strength are a main part of each nation's military building goals. U.S. reserve strength is now approaching that of its active forces and its responsibilities continue to increase. USSR reserve forces are now close to 25 million and steps are being taken to improve capability for rapid mobilization. France is improving the equipment of 14 reserve divisions. Fourth, "soft" items such as administration, studies, quality of forces, etc., are also being stepped up.

2. Conflict revolving around economics will increasingly sharpen. The compromises and concessions between East and West are mostly due to economic constraints. Today, when the development of peace is the main theme, reduction of chances of war and struggle for development are a common strategy among the nations. In today's high tide of peace, it is unrealistic to employ force to secure living space. It calls for a concerted effort to keep calm in resolving national contradictions and territorial disputes relying upon diplomatic solutions. But there can be no compromise when it comes to conflicts that affect the development of national interest because they directly determine national survival and honor. Resources are a vital determinant of national development. A country secures more natural resources to increase its ability to survive and boost its strength. Thus, in the struggle for development, there is a continuous battle, covert and overt, for economic resources. When the requirement for living space is still ahead of that for development, the struggle for resources might not be too intense. But when development becomes the priority concern, then the battle for resources becomes

acute. According to experts, the world population will hit the 10-12 billion mark by the year 2030. Man will have used up 87 percent of the world's total oil reserves. Natural gas, gold, copper, and so on, will near depletion. The phenomenon of more mouths to feed than food available will continue to worsen. Then, before the crisis actually arrives, a primary goal of hegemonist and imperialist nations will be to grab control of or occupy those areas where economic resources can still be extracted. There is evidence that the strategies of a number of nations attach more and more significance to the seas. The shortage of land resources is mirrored by the intensification of struggle for that which is under water. Looking at the present, one sees that there are a number of sea areas where the national interests of different nations converge and conflict. Whoever controls these areas will acquire its resources and gain an advantage in the future. It can then be predicted that military struggles may take on a new dimension in the future.

3. As factors contributing to world instability subtly increase, world developments display more and more extremism. The bipolar powers, the U.S. and the USSR are declining significantly. Japan is the soaring economic power. With the acceleration of changes in Europe and Germany, Western Europe and Germany with their formidable power undoubtedly will form a new pole. At present, the bipolar structure is heading toward a multipolar configuration. And following this development, the ingredients for instability will grow even more. A number of Western scholars feel that the world had been relatively stable due largely to the simple, balanced interaction of the bipolar system, and that probability of war increases with more and poles and varieties of

national interests and demands grow. But multipolar systems evolve from the fact that international power did not have balance. As history has proven time and time again, power imbalance inevitably creates changes in the stature of nations and the roles they play, provoking international uncertainties. From the historical standpoint, large-scale wars all stem directly or indirectly from imbalance. From the mid-17th century to the start of the 19th, France, England, Russia, Austria, and Prussia supplanted Spain and the Netherlands to dominate Europe step by step, provoking a series of lengthy alliance wars. From the middle of the 19th century, the United States, Russia, and Germany broke out of their cocoons and replaced such dominant powers as France and the Austro-Hungarian empire. The Crimean, Franco-Prussian, and Opium Wars erupted. Then, toward the end of the 19th century, Germany, the United States, and Japan were the heirs, leading to massive changes in the global balance among the big powers and on to two world wars before reaching a new balance after the Yalta Conference. Now, the balance is again changing, a new imbalance seems in the offing. But whether this can perpetrate another world or large-scale war will, of course, depend upon geopolitics, economics, and military affairs. History does not simply repeat itself. But worthy of attention is the increase of factors contributing to instability. Last November, at the Council on Foreign Relations in Philadelphia, many international experts and strategists concluded that for the past 700 years Europe had been the breeding ground for numerous wars. At a certain time in the future, it may sink back to a state similar to that which was a prelude to World Wars I and II. For that reason, some feel that, as the cold war ends, a new one is starting.

### Cadre Appointments Tied to Political Qualifications

90CM0171A Zhengzhou LINGDAO KEXUE  
[LEADERSHIP SCIENCE] in Chinese No 3,  
16 Mar 90 pp 8-9

[Article by Office of Research, CPC Organization Department: "Political Qualifications Must Be Considered First When Selecting and Checking on Cadres"]

[Text] In recent years, there has been a tendency to overlook political quality in choosing and evaluating cadres. For example, some people pay no attention to politics when they choose people, declaring that "we must dare to use able people who are controversial and have made mistakes." Some people substitute the "productive capacity standard" for the principle that "cadres must have both good morals and professional qualifications." They feel that "anyone who can improve production is politically correct." Some people only check to see whether the person in question had problems during the Cultural Revolution, and they lack a complete understanding of the person's political stance, political attitudes, and political leanings. Overlooking political quality during the course of choosing and evaluating cadres has caused some departments to commit errors in their investigations, resulting in the selection of a small number of cadres for important leadership posts who lack a resolute political stance, who are not of good political quality, and who are even seriously infected by the ideology of bourgeois liberalization.

Complex international and domestic conditions remind us that several key issues still exist: Are we to uphold the socialist road or implement capitalism? Are we to uphold or negate the leadership of the Communist Party? The struggle to end the leadership of the Communist Party is going to continue for a long time. If our party is to lead the people of the entire nation in upholding the program of reform and opening up as well as the four cardinal principles, and intends to achieve socialist modernization in accordance with the "three-step" strategy of development, the most important thing is to maintain the purity of party ranks, especially among the ranks of party cadres, in order to ensure that every level of leadership in the party and the state is firmly in the hands of true Marxists. Therefore, party committees and Organization Departments at every level must earnestly learn the lessons of the last few years, when some local areas ignored political quality. At no time can we ease up on our demand for political quality. At no time can we be negligent in our investigations of political cadres. With respect to this issue, we must have a strong sense of political responsibility. We cannot under any circumstances take this issue lightly. County (municipal) party committees, the People's Congresses, governments, and People's Political Consultative Conferences are now preparing to elect new leadership groups for the next period. In order to assemble good leadership groups, we must do a good job of evaluating cadres. In evaluating cadres, we must be certain to pay special attention to political quality. We must evaluate this issue very closely

and earnestly. If someone's political quality is not good, they should not be used, no matter strong they may be in other areas.

Paying close attention to the political quality of cadres involves mainly the following points: Cadres should demonstrate a resolute political stand, be loyal to the undertakings of the party and the people, uphold the four cardinal principles unwaveringly, and withstand the test of struggle. Cadres should have a certain level of political training, be politically sensitive, and be able to use the Marxist stance and Marxist concepts and methods to observe and analyze events and things. Cadres should devote themselves selflessly to the cause without concern for fame or fortune. They should be upright and devote all their thoughts and energies to serving the people. They should relate closely to the masses, take actual circumstances into account in all that they do, bravely criticize and self-criticize, focus on the interests of the whole, and preserve unity. They should have a reformist and innovative spirit, and perform their work in a creative manner. In short, we must see whether a cadre's political leanings, political stance, and political concepts are correct. In selecting and evaluating cadres, we must by all means keep vigilant and alert where political issues are concerned.

Serious political struggles are a very good test of cadres. We must first of all look closely to see the political attitude of each cadre during every phase of the recent unrest and rebellion, as well as how this attitude was demonstrated. We must find out whether each cadre resolutely upheld the series of plans and measures adopted by the central leadership to curb the unrest and quell the rebellion, or whether he or she had an ambiguous attitude, or resisted, opposed, and refused to carry them out. We must find out whether each cadre took a clear position to preserve overall peace and unity, and worked to curb or prevent the unrest. We must also understand every cadre's stance and attitude on important issues of principle—that is, does he or she uphold the socialist system of public ownership and the Communist Party's position as the ruling party? There are also some cadres in the party who have become known as "fence sitters." In matters involving important principles, they bend in whatever direction the wind blows. They have adopted opportunist attitudes, and they "put things off" and "keep an open hand" in everything they do. They always jump on whatever bandwagon has the upper hand, but in key moments their political attitude is ambiguous. It is not easily to clearly identify this type of person in the course of evaluations, to be sure, but their political stance will be clear if we just examine their words and actions vis-a-vis several important issues of principle which have come up in recent years. Their performance in the recent unrest and rebellion will have been particularly revealing.

In evaluating cadres, we must fully follow the mass line, listen to the opinions of a broad spectrum of the people, and strive for a comprehensive and accurate understanding of the situation. We must expand the contacts we make to an appropriate degree. In most cases, not only must we familiarize ourselves with the supervisor of the person being evaluated and talk with the fellow

members of this person's leadership group, but we must listen to the opinions of his or her subordinates and of the directors of departments subject to his or her leadership. For units with relatively complex situations, and for important evaluation subjects (particularly for those whom we intend to assign to sensitive posts), our contacts must be expended to an appropriate degree. This time, some provinces and municipalities talked with an average of 200 people in the evaluation of a single leadership group, and people in all quarters responded in a relatively positive manner. This experience should be accorded great importance.

Making direct contact with the subject of evaluation is also an important method of evaluating a cadre's political quality. In addition to listening to the opinions of various people and reviewing written materials relevant to the case, there are some important doubts that sometimes can be cleared up only by speaking face-to-face with the individual and asking for his or her stance and attitude on some important issues, and by hearing their description of some important matters.

Emphasizing the need to place highest priority on political quality when evaluating cadres does not mean that the quality of cadres in other areas should be ignored. In addition to earnestly evaluating a cadre's political quality, we should carefully evaluate his or her aptitude for reform and innovation, leadership ability, job performance, and professional qualifications in order to arrive at a comprehensive assessment of the cadre in question in a manner consistent with the requirements of the four modernizations of cadres. We should make recommendations for the proper employment of cadres on the basis of these evaluations.

#### **Guidelines for Recommending Cadres for State Posts**

90CM0171B Zhengzhou LINGDAO KEXUE  
[LEADERSHIP SCIENCE] in Chinese No 3,  
16 Mar 90 pp 9-10

[Article by Yan Ping (7051 1627): "When Selecting and Evaluating Cadres, We Must First Focus on Political Quality"]

[Text] One important part of carrying out the party's political leadership lies in the task of recommending cadres for important posts in state organs. This is an important method by which the party preserves and strengthens its ruling position. In 1990, county (municipal) People's Congresses and governments are going to begin a new session. Party committees at every level must sum up the experience gained in the elections when we switched sessions two years ago, and take firmly in hand the following tasks:

**1. When formulating lists of recommended candidates, party committees must adhere strictly to the mass line and raise the quality of their work to recommend election candidates.** During the changing of sessions at the provincial level in 1988, practically all of the candidates

recommended by the party committees went through a top-down and bottom-up process of democratic recommendation. Several thousand people took part in democratic recommendations in some provinces. As we hold county (municipal) elections for the next session, we can learn from that experience. After this preparatory work has been done properly, the lists of candidates recommended by the party committees will gain broad acceptance and will be passed more easily.

**2. We can make concrete improvements in the way we familiarize people with the candidates.** It now appears that delegates will not be satisfied with only a brief summary of a candidate's career. In some localities, not only is a brief summary of each candidate's career made available, but the candidate's record in terms of ethics, qualifications, and work habits are given a full airing. In Beijing and Zhejiang, opportunities for candidates and delegates to meet face to face were even arranged at the request of the delegates. When holding elections for the new session at the county (municipal) level, we can study these methods. Party committees and party committee organization departments need to have proper comrades legally working in elections for People's Congresses or the People's Congress Standing Committees and participating in the assignment of duties to cadres in order to provide direct answers to questions posed by delegates and committee members, and to assure that elections will function smoothly.

**3. Party committees must strengthen leadership over work on elections for the new session.** First, they must educate people about the program and policy of the central leadership regarding cadre work. In particular, they must make clear the standards for leading cadres. During elections at the provincial level for the new session in 1988, an important reason why people were often rejected was because some localities did not do enough to educate people about policies and standards for cadres, and some delegates or committee members did not have a good grasp of cadre standards. In the future, as part of our work to hold elections for new sessions, we must pay attention to this problem. We must make clear the principles, programs, and policies regarding the placement of personnel. We must make all delegates and committee members understand them.

Second, party committees must make clear to delegates and committee members what the party committee hopes to achieve through certain personnel placements. Prior to calling the meeting in which the candidates are chosen, the party committee should introduce the program and objectives of personnel placement (i.e.—what kind of structure each leadership group should have, what kind of people they should include, and so forth) in order to exchange views and unify ideology. Party committees should act in accordance with the relevant regulations and do a relatively thorough job of familiarizing all the delegates or members of the People's Congress Standing Committees with the moral stature, qualifications, and work record of the candidates as well as the party committee's reasons for recommending them.

Party committees must provide factual answers to the doubts they raise and enable everyone to attain a relatively comprehensive and objective understanding of the candidates recommended by the party committee.

Third, the activities of the party organization in the People's Congresses as well as the activities of the party members among the delegates and committee members should, through their positive influence, convert the aims of the party committee into something that the delegates and committee members themselves actively seek. People's Congress Standing Committee party groups should carry out their work under the leadership of the party committee. They should be responsible to the party committee, and should carry out the party line, program, and policy on cadres in regard to personnel placement and removal. Party members among the delegates and committee members should combine the legal exercise of democratic rights with the organizational principles for handling affairs within the party. If there are disagreements among party members on People's Congress Standing Committees concerning the cadres recommended by the party committee, these differences can be aired within the party, but they must not be revealed to the delegates.

Fourth, we must fully encourage democracy and accept reasonable opinions brought forward by delegates and committee members. We must combine the party's leadership and encouragement of democracy with the handling of affairs in accordance with the law. Party committees must respect the right of People's Congresses to hold elections and choose cadres in accordance with the law. At the same time they must earnestly sum up the lessons of experience and continually improve their work.

Fifth, party committees must do a good job with their ideological and political work. When it is necessary for party committees to step forward and be heard, their principal person in charge should take the initiative to perform this work and provide active guidance. The principal person in charge of a party committee is responsible for clearing up and explaining the situation when completely unfounded rumors are circulating in order to offset the unhealthy consequences of such situations, to prevent anarchy, and to stamp out belief in extreme democracy. Party committees must prevent unorganized activities from disturbing and disrupting elections for the new session.

#### **National Administration Said To Begin With Family**

90CM0170A Zhengzhou LINGDAO KEXUE  
[LEADERSHIP SCIENCE] in Chinese No 3,  
16 Mar 90 pp 25-27

[Article by Liu Mingfu (0491 2494 4395): "Administering Family and Administering Country"]

[Text] Administering the country is the sacred mission of leading cadres. Administering the family is also a duty-bound responsibility of the leading cadres. With regard to people in government and politics, the administration

of country and the administration of family are closely related, and country management and family management complement each other. The study of characteristics and laws used by leading cadres, and especially high-ranking officials, in administering the country should be an important topic of discussion in leadership science.

#### **"Management of Family" and "Management of Country" Complement Each Other**

Since ancient times, people in government and politics have always adopted one of three methods to deal with the question of administering the family and country. The first of these is to have a unified form of administering family and country. This is effective for administering the country and is also a proper method for administering the family, this is fully advantageous and results in a blessing for both the country and people. The second method is to have separate administration of country and family, this is okay for administering the country, but does not work for administering the family; it has only half the advantages. The third method is to have chaos in the administration of both country and family; this subjugates the country to monarchy and destroys enterprise. As for those who have important responsibilities in leadership, if they ineffectively manage the country for a long period, then family affairs will begin to affect national affairs and bring about a factor that might disrupt and destroy the nation's administration.

Leading cadres of the Communist Party are different from feudal bureaucrats. As party members, they are the advanced elements of the proletariat. As cadres, they are the public servants of the people and leaders of the masses. The goal of party cadres is to serve the people, they regard transforming society and building the nation as their responsibility. They have setting an example as their special characteristic, combine theory with practice, speak with one voice, and think and act in one and the same way; these are all part of their fine style of work. All of this plays a part in determining that they are definitely people who combine administration of the country with administration of the family. The revolutionary principled communist will throw himself totally into the struggle to transform society and administration of the country. It is also inevitable that they will implement the practice of remolding themselves and their families. If leading cadres of the party practice communism in their administration of their country but adopt different standards in the administration of their families, if they are communists only when making public speeches or when before the masses, but they become noncommunists when at home with their wives and children, then this dual character of person is definitely not a true communist.

The family is the basic cell of society and the families of leading cadres are the most active cells in the social organism and the ones that have the greatest effect on the entire social organism's health and condition. Because some leading cadres do not effectively manage their

families, it has created a very bad influence on the masses; not only has this caused the prestige of those leading cadres to fall, but it has also had a direct effect on the people's faith in the party. The people feel that leading cadres employ Marxism-Leninism when administering the nation but adopt another doctrine in dealing with their families. They feel that when the wife or child of a leading cadre gets into trouble or breaks state laws they are often not punished. In this way, the image of the leading cadres in the people's eyes is being darkened. Their leadership not only lacks authority and has no appeal but also draws despise and ridicule from the people and creates a counterrevolutionary mentality. It can be said that in this new period of history there are some unprecedentedly complex and troublesome situations and problems facing leadership work. Administering a country is difficult and so is managing a family. Concerning the question of strictly controlling their families, every leading cadre should portray his heroic qualities and show the courage and qualities of a qualified leader. In ancient times people said, "If you cultivate moral character and create a stable family, then administration of the country will be smooth." Placing this "cultivation of one's moral character and creating a stable family," which refers "to transforming oneself and family before peaceful administration of the country" is very reasonable. In order to ensure the building of an honest and clean government, some people have supported the formulation of a special law concerning the families of leading cadres or the adding of some special clauses to existing laws related to this aspect. The reasoning behind this is that there are some special considerations to be considered in the control of the wives and children of leading cadres. This idea needs to be earnestly studied in more depth.

#### **Prevent the Family From Becoming a Breach for "Peaceful Evolution"**

Using the wives and children of leading cadres to perform evil deeds is a striking characteristic of the unhealthy tendencies in this new period. Attacking the families of leading cadres is a major tactic used by the Western "free world" to carry out "peaceful evolution" against China. By strictly controlling their families, leading cadres create a large deterrent to unhealthy tendencies and strike a strong blow against the expanding imperialistic spirit and its permeating ideology. The party's various levels of leading cadres are the mainstays of socialist undertakings. Negative and corrupt elements may make direct attacks on cadres, but more often they will use ingenious indirect attacks. These indirect attacks will often use the wives or children of the leading cadres as the weak link against them. In order to break key links, some people who practice unhealthy tendencies have read *The Red Lantern* and then used the wives and children of leading cadres in attacking them. The wives and children of leading cadres are their "close protective force": If they have strong principles and place strict requirements on themselves, they will act as a protective screen and line of defense for

the leading cadres to counter and resist corruption. If they are manipulated and used by people who practice unhealthy tendencies, fall into association with them, or even become organizers and leaders of unhealthy tendencies, then the position of a leading cadre's family will be lowered, the unhealthy tendencies will gain an opening and obtain an "internal foothold" that will endanger the leading cadres. The wives and children of leading cadres act as a special support for them. Some people like to use this avenue to achieve their personal aims. Some people are good at conducting affairs by not going directly to the leading cadres but by making contacts with the wives and children of the leading cadres and working through their eyes and ears to get to the leading cadres. Some people draw the relatives of leading cadres into their ship so they can have smooth sailing and to create a good situation for them. This provides protection for their unhealthy tendencies and makes it difficult for us to carry out many of the rigid measures against corruption.

Under the situation of implementing reform and opening up policies, Western capitalist nations have intensified their pace of "peaceful evolution" against China. These nations have placed their hope of "peaceful evolution" on the future third and fourth generations of Chinese. Their focus has been the young people of China, they have put emphasis on and tried to manipulate the children of all levels of leading cadres in the party and government to draw them to their side and use bribery and corruption to win them over. The children of some leading cadres hold important positions in foreign interchange and are responsible for important work. Some pursue advanced studies in foreign countries and frequently go in and out of developed nations. Most of these young people are able to maintain a proletarian stand but there are a few who cannot withstand the attack of sugar-coated bullets by capitalism; they fall into a quagmire under the influence of money, beautiful women, material comforts, and status. Some even become disciples of Western democratic and free political thought. It can be said that the capitalist class is making concerted efforts to win over the next generation by political means. Some children of leading cadres are unwilling to lag behind in the "going abroad fad." The intent of this "fad to go abroad" should be to go and study advanced technology so they can serve the motherland. However, some people have a craze to acquire material things abroad and look at this craze as their way out. The enthusiasm and interest shown by the international capitalist class toward the children of leading cadres conceals their strategic considerations. Therefore, under the situation of reform and opening up, the strict control of families by leading cadres is of strategic significance in smashing the "peaceful evolution" plot.

#### **Be on Guard Against the Corruption of "Being Partial to Others"**

In real life, it is easy to find the following type of phenomena: The existence of "varying political views" in some leading cadres families between a husband and

wife, between father and son, and between father and daughter. Among the members of the family, there is also a problem of who serves whom, who should transform whom, and who triumphs over the other.

At the present time, when people talk about countering corruption they often look only at the corruption in the Western capitalist class and the enemies of China's social class; very seldom do they bring up being vigilant against the corruption of "family members" in our homes. In reality, some leading cadres cannot withstand the tests presented by reform and opening up, some even take the route of becoming criminals, while some are corrupted by their spouses or children. Spouses and children use the antiproletariat ideas they get from society to influence and surround the cadres. It is often difficult to distinguish and hard to resist the unhealthy ideological influence of wives and children. This is because the influence and persuasion from wives and children is cloaked in "sincere concern" for the cadres's stand. For example, they encourage the cadres to not offend people and not require true standards be met; they urge the cadres that "if they do not use their power it will become invalid," that they should use their authority while they have it to handle matters for relatives and friends, and to grant favors; they urge the cadres to promote their relatives as reliable people so that they and their families will have it easier in the future, and so on. This influence and corruption all stems from an atmosphere of "partiality." It is not an easy thing for cadres to uphold their principles in front of their wives and children and to resist this corruption from their charming wife, loving daughter, or treasured son.

Some cadres are very successful at educating others but fail in the control and education of their sons and daughters; some are honest men who have corrupt spouses; and some are revolutionary fathers who have children that engage in criminal activities. When this type of situation occurs, it harms revolutionary undertakings and also is a misfortune for the individual cadres. Why is it that a leading cadre who can educate and lead countless numbers of people forward cannot correctly educate his spouse and children? Ineffective management of one's family leads to "the spirit dimming"; the blame for this must be placed on the work done by the cadres and is also a dereliction of his duties. The qualities and achievements of every qualified leading cadres is reflected in his administration of the country and in the management of his family. The situation of one's family management should be an important aspect in the review and selection of cadres.

A concept of class struggle should be used when looking at the family. China's society is a society with existing class struggle, the various political trends of thought cannot but be reflected in a family. Families are the cells that make up society; the basic contradictions and struggles of society will naturally exist in varying degrees in families, or else they will be reflected in other forms within the family. During times of revolution or unrest, conflicts between members of a family may occur.

Therefore, families do not merely have a "love" bond with each other and a friendly relationship with other members of the family, but there also exists social and political relationships, and to a certain degree, a relationship of struggle. Within a family, there is also the question of which type of ideology and style of work holds the dominant position. The family is a special battleground in regard to the mutual exclusion of different ideologies and styles of work. As for the relationship between families and society, the family acts as a solid foundation and a line of defense. If the family has strong defenses, then it can resist the infiltration and attacks of unhealthy tendencies. Therefore, the leading cadres should adopt a political concept when dealing with family problems, expound on their political stand, and uphold revolutionary principles.

China is a socialist republic, the families of our leading cadres must have a distinct socialist character. The banner of socialism should wave high above these families. The families of leading cadres should become a testbed and prototype for leading the way in the implementation of revolutionary principles. Many of the general and specific policies for administering the country should first be implemented in the family. The communist spirit should be energetically encouraged in the family, and not allow the family to become a source for unhealthy tendencies or a place that shelters evil people and permits evil practices.

#### **Trials of Lu Dingyi's Wife in Cultural Revolution**

90CM0162A Hong Kong CHAO LIU [TIDE]  
in Chinese No 38, 15 Apr 90 pp 60-63

[Article by Yan Zhao (0917 2507): "The 13 Years of Imprisonment of Lu Dingyi's Wife in Yanan—A Special Article on Behind-the-Scene Struggles of the Chinese Communist Hierarchy"]

[Text] In 1966, before the Cultural Revolution, Lu Dingyi, now age 84, had been an alternate member of the Standing Committee of Chinese Communist Party's Political Bureau, secretary of the Central Secretariat, chairman of the Central Propaganda Department, vice chairman of the State Council, plus minister of culture. When the Cultural Revolution erupted, he and Peng Zhen [1756 4176], Luo Ruiqing [5012 3843 0615] and Yang Shangkun were indicted collectively by Mao Zedong as an "antiparty, antisocialist clique" (also called the "Peng-Lu-Luo-Yang clique" or the "Inn of the Four").

Before "accounts had even been settled" with Lu (that is, criticized and attacked), his wife, Yan Weibing [0917 1983 0393], was already arrested because she had anonymously criticized Lin Biao's wife, Yeh Qun [0673 5028], for plotting to interfere in political matters. She further alleged that before Yeh married Lin, she had had relations with other men and thus lived an "improper lifestyle." At the start of the Cultural Revolution, Lin Biao carried this quarrel noisily all the way to Politburo



committee meetings. He even read aloud a doctor's "certification" attesting to Yeh's "virginity" before marrying him.

Later, both Yeh and Mao's wife, Jiang Qing, became committee members of the Politburo and even controlled the Executive Office of the Chinese Communist Central Committee's Military Commission, the Chinese Communist Cultural Revolution Section, seeking to bring harm to the people in the name of "revolution."

This article was originally carried in Beijing's XIN GUANCHANG [NEW OBSERVER] magazine. The author is Yan Weibing's sister. Due to length, not all of it has been published here. What it reveals is the ruthlessness of the behind-the-scenes internal political struggle within the party and a rather sordid side of the Cultural Revolution.

#### **Chen Yun Acts as Matchmaker for the Yan-Lu Marriage**

On a day in May 1941, my mother said to me, "I am going to the central organization today. Important." After I kept after her, she finally told me that Uncle Chen Yun [7115 0061] was going to be a matchmaker for Weibing. So I begged mother to let me go along. We entered the city through South Gate; after we got to the agency cooperative, we climbed a small hill and stood by a row of caves belonging to the central organization. Uncle Chen and a middle-aged man came out. The man was of medium size, slightly swarthy, and not well versed in conversation. He struck me as one of the "old 8th Route Army cadres." In short, he was not my idea of a striking figure, but seemed a straight and narrow ordinary man...

But mother was taken to him, even more so after learning that he was a gifted student at the renowned Communications University. The moment she got home, she stressed to my older sister that "one should not judge by looks, one can't measure the ocean's water. This man looks straight and is an engineering major. He shows promise, can even speak two foreign languages!..."

Mother told Uncle Li Fuchun [2621 1381 2504] and Aunt Cai Chang [5591 2545] about Weibing's prospective marriage and they both concurred. And thus, after they had been in touch and gotten to know each other for about three months, the wedding seemed set.

On 30 August 1941, with Commander in Chief Zhu De officiating, the wedding took place at Wangjiaping where the Yanan Military Commission was located. A few tables of simple fare were set up and my elder sister and Lu, who was then deputy chairman of the Forward Headquarters Political Department, were married.

From then on, my sister Weibing started a new phase in her life, one with few joys but many hardships, even pitfalls.

#### **The Politburo Sees Yeh Qun's "Virginity" Certification**

Since her childhood, Weibing had shown little or no tolerance for wrongdoing. Commander in Chief Zhu told her back at Yanan that she might pay for her straightforwardness some day. Her self-respect was strong and she would not give ground to anyone. Nimble of mind, sharp of words, her castigations could infuriate some for days. Some compared her to a searing flame or a sharp sword.

Way back during the time of Yanan's School for the Study of Marxism-Leninism, during the rectification period of 1942, she had already seen through the improper political and personal lifestyles that people like Yeh Qun lived under cover of party labels. Yeh Qun became even more wanton after total victory and politically even more ambitious. In 1965, blatantly presenting herself as Lin Biao's personal representative, she attended meetings of the party Central Committee. She began issuing orders. The ever-sensitive Weibing saw a cloud on China's horizon. She once said to me, "Lin Biao can't stand boredom, Yeh is a monster. Some day, they will disrupt our land." What insight she had! But she was like a person who "climbs a hill even though he knows there is a tiger on the hill." On her own and by herself, she anonymously exposed Lin and Yeh. Later she said, "How wonderful it would have been if I had used my real name!" But it was a time for anonymity, when the masses were hoodwinked and the cadres kept their mouths shut. Her anonymous letter exploded in the Lin camp like a mini-atomic bomb, shaking them up badly. No wonder Lin roared in anger at the May 1966 Politburo meeting that "some bastards dare to try to kill us—Lu Dingyi is one of them. So is his wife, Yan Weibing!" It didn't stop there. At the expanded meeting of the Politburo there was that document, the so-called "virginity certificate," which became an unprecedented political joke. What a coverup attempt!

But Weibing paid too great a price. After the gang of four disintegrated, the special investigator comrade revealed that "we shuddered at how Lin Biao, Yeh Qun, Chen Boda, and their cohorts dealt with 502 special actions." Lin had annotated on one case, "I want to kill Yan Weibing 10 times!" This shows how true an aim Weibing had.

#### **Forced Confession at the Detention Center To Please Lin Biao**

Lin, Yeh, and Jiang Qing decided to use Weibing as a sacrifice to their flag of the Cultural Revolution—she who dared to expose them. They set up a nationally notorious "serious crimes" category (internally known as the 502 serious actions). During that topsy-turvy time when those who were honest and straight became corpses, but those who were crooked were honored and promoted, the cry of "Down with Yan Weibing" traveled the rail line between Beijing and Shanghai, reaching the latter city. Countless words of abuse and slander were heaped upon her—this person who was not afraid to



speak the truth. Weibing's own poem said, "A life of trouble covers the earth. The years are as a willow tree swaying in the wind." For herself and her kin, prison waited with shackles and torture.

She suffered for 13 whole years in a Yanan cell of no more than six square meters. She was beaten 30 or 40 times. The beatings cost her her hearing and her teeth... At the first public denunciation meeting at the former Central Propaganda Department, a nail-studded wooden club was used on her whole body. Her oldest son was jailed for six years and suffered two broken ribs. Three sisters were confined for six, eight, and nine years, respectively. Even her 70-year-old mother died of physical and emotional torture in Nanjing's No. 1 Prison near Tiger Bridge.

On 28 April 1966, Weibing was illegally arrested for the crime of plotting to "kill Vice Commander Lin Biao" and to "carry out counterrevolution." The interrogation at the start was entirely concerned with the anonymous letter. She admitted without hesitation, "I alone am responsible for my actions. Come what may, I shall bear the consequences."

As the political situation continued to develop and the Cultural Revolution became ever more turbulent, the gang of four concentrated on her more and more. One day, as the interrogation progressed, a female interrogator with baggy eyelids shrieked at her, "You know that your crimes cannot be redeemed even if you were killed a hundred times. But we also say, 'frank confession evokes leniency, but defiance begets severe treatment. Those who give results are rewarded.' We know you have a remarkable memory, all you need to do is write out the stuff about the Tai Hang Mountains. We will reward you." A male interrogator chimed in saying that "an old saying was that 'within the stomach of a premier there is a desire to be a helmsman.' Well, our vice commander's stomach harbors a desire to pilot a plane..."

Weibing was startled. She thought, "Good grief! Tai Hang? Don't they know that was a famous guerrilla base area during World War II? Then have the old leaders such as Zhu De, Liu Bocheng, and Deng Xiaoping come to harm as well? No. Definitely no! I am saying nothing, no matter what." So she gritted her teeth and said, "First, I've never been near Tai Hang, you can check that. Second..." she pointed to herself. "This is where my heart is... I am not going to betray anyone." The woman interrogator screamed, "You are recalcitrant and stubborn. Let me tell you something. Lu Dingyi is now a political corpse and can do nothing. Only you can write it down. All you have to do is do it and we will help you reorganize your family life."

"What, you want to be my matchmaker? Too bad I am too old," Weibing replied caustically. This infuriated the woman. "Know when you are well off." The other added, "Prison life is not pleasant. Can neither live nor die. A lifetime of rotten vegetables and rough bread."

Yan Weibing stuck to her "I don't know." Returning to her cell, she paced and lay back sleepless for nights. Thoughts fought for attention. "Terrible! It no longer is a matter of my own family, but concerns the country. What am I going to do! It's time to sacrifice myself." She considered suicide to protect the revolutionary elders she loved so dearly. She started saving sleeping pills by sticking them under her tongue, taking them out after the guard left and putting them inside a small plastic bag. She took an overdose late at night on 30 August 1966, serenely composed herself on the bed and shut her eyes, losing consciousness quickly...

Maybe it was because someone had discovered the plastic bag...

When she opened her eyes, Ward Room 111 was crammed with people, the warden viciously accused her of abandoning the party and the people.

Her name was changed to Li Xiuying [2621 4423 5391].

Four days later, her blood pressure dropped to 30. She was carried out of the front gate of the Public Safety General Hospital. A jeep came up, its jolting ride made her faint again...

If people are not afraid of death, how can they be intimidated with death? The homicidal gang knew that she was gone and was not about to reveal the material. It could only try to denounce her publicly. Time after time, accusation after accusation... She told us later, "Once, at the Workers Stadium there was a denunciation meeting with tens of thousands present. Those seditious elements purposely confined comrades such as Luo Ruiqing, Zhou Yang [0719 2254], Wu Lengxi [0702 0397 6007], and Xu Li [6079 4539] inside a privy behind the stadium. I was the last one sent in there. Comrade Luo Ruiqing and I looked at each other, wordless and demoralized. What could we have said? In that murky and stupid period of time, truth and dignity were dustcloths. A few hours of denunciation, a few hours of roller-coaster hardship. The denunciation meeting ended. I looked out—the ground was heaped with those black plaques accusing us of crimes."

I asked the guard, "When will it resume?" He countered with a sneering question, "Oh? You're hooked on denunciation meetings now?!" I answered back, "Next time it starts, I am going to shout that I alone wrote the anonymous letter. No one else is involved." Before she finished, the guard had run off to report. After that, she was not let into the meetings.

### 13 Years of Inhuman Prison Life in Yanan

On 12 February 1967 she was put in Yanan's black hole of a prison. Her spirit and her flesh had suffered unbearable pain and stress, now it would be even worse.

The moment she entered this hell, she was subjected to seven days and nights of ceaseless interrogation. Each began at dusk and ended at dawn. Often she was forced

to kneel during the sessions, denied water to drink, and relief to go to the toilet. The Lin Biao henchmen rotated in three shifts. At night, they wined and dined. She was so weak she could not stand. These creatures shouted at her, "All you have to do is give a parting shot by confessing and you will be rewarded." She replied, "I am a scholar, not a warrior. I don't know how to fire a shot."

Her obstinacy infuriated these animals. They hit her on the head, tore at her hair, which dropped in clumps. As she reached down to pick some up, she was hit on the hand by a studded shoe which was ground into the back of her hand. Shortly, her right hand was a bloody mush... she could not stand it any longer. She cursed them loudly, "You bunch of animals! Yeh Qun this, Yeh Qun that... is she your aunt?" One bald-headed man named Shao [6730] dashed over to beat her with both fists so that she fell down against a leg of the interrogation table, losing three front teeth. With her mouth full of blood, Shao yelled, "Don't spit!"

Instead, she spit the blood in his face. He went berserk and charged. Others came to help him pin her to the floor and wiped the blood on him off on her prison uniform.

Glassy-eyed at night from the nonstop interrogation, she was nevertheless forced to go back to her cell in the daytime to "reflect." Even a person made of steel could not long endure such torture. Depressed and angry, she sometimes unavoidably dozed off, but when the guard discovered it, shouts of "Stand up! Take off your shoes! And your socks! You won't nod off if you're colder!" greeted her.

The frigidity of December would have gone through her thin clothing even without such ill treatment. She lost sensation in both legs, her body was cold as an icicle. But it only strengthened her resolve. She was handcuffed behind her back and the cuffs were not taken off at night and she could not eat easily, having to kneel down and suck soup from a bowl. This went on for more than 40 days, yet she was unbowed. She said not a word about the "material."

She could not bathe for six years, and grew a layer of covering. She developed an ulcer, spitting blood often, but was denied treatment. In 11 of the 13 years she had the coarsest of foods (as a "criminal," the degree of sustenance depended upon the volume of "material" produced). She was the last allowed to eat each day, so the food was cold and meager. In half a bowl of rotten vegetable soup, there was almost half an ounce of mud. The coarse bread was stale and in a whole loaf—a handful of crumbs kneaded into a muddy clump.

#### Release Two Years After Jiang Qing's Downfall

In 1971, Lin died. Nationwide, the people celebrated the "father's death."

However, because of adherence to "doing things [in] accordance to policy" and "there is no right and wrong," it was not until 1 December 1978 before Weibing was released. She suffered for 13 years, but did not become the "lunatic" some accused her of being. She sprouted some white hair on each side, but her head remained clear.

Her legs were shriveled from years of torture, had lost about 30 kilograms in weight. She bore deep scars in spirit and in the flesh. When we saw her at the State Council's Hospitality Center No. 2, it was as a world apart; we were benumbed. We could neither cry nor laugh. Her two sons and one daughter had not been married when she was imprisoned, the two oldest now were. Her older son gave her two granddaughters. Only the younger son was still single, stoutly vowing to remain so until she was freed.

Weibing often cited a calligraphic scroll written by Uncle Chen Yun: "Greet myriads of accusing fingers with a cold and calm stare; Bow in humility willingly to a young calf" (Be defiant against the arrogant, humble with the meek). She said to me with tears in her eyes, "This was his ironclad guidance to me. I know that the sun is setting. I must work harder to plant seeds!"

## NATIONAL AFFAIRS, POLICY

### Contract System, Tax Reforms Called Complementary

90CE0247A Beijing JINGJI CANKAO in Chinese  
22 May 90 p 4

[Article in "Inquiry and Discussion" column by Yi Yunhe (2496 6663 0735): "Perfecting and Improving the Enterprise Contract System Should Be Accompanied by Thorough Restructuring of the Tax System"]

[Text] For some time, whenever the enterprise contracted management responsibility system and the industry and business tax system are discussed, some comrades would pit the perfection and development of the contract system against the thorough restructuring of the tax system. They insist that improving the contract system would preclude tax reform which basically aims to "separate taxes from profits, require enterprises to pay debts with after-tax funds, and stipulate after-tax contract bases." It is our opinion that this interpretation of the relationship between the two is erroneous and unrealistic.

*The present contract system indeeds needs to be improved and further developed.*

We must acknowledge that enterprise reform, whereby the state handed down decision-making authorities and yielded profit to the lower levels, had gone as far as it could, because by 1987 the state had no more profit to yield to the lower levels. So we have opted for the contract system which focuses on the separation of ownership and management rights and the integration of responsibility and rights and privileges. To a certain extent, it has mobilized the enthusiasm of enterprises as well as their staff and workers. By the same token, contracting has improved economic efficiency in some large- and medium-sized enterprises, and enterprises' internal management responsibility system has also improved, and this has let the economy keep up the fairly high rate of growth. But we should also notice that the contract system itself is flawed and defective in several ways. Primarily:

Profit is not allocated fairly between the state and enterprises, and as a result, the state's revenue as a share of the national income has been falling each year, and the state has lost a substantial portion of its income. For example, according to statistics gathered in the state-run industrial enterprises implementing the contract system, enterprises' 1988 realized profit was 18.7 percent higher than the previous year's, but they delivered 9.7 percent less of their profit to the higher authorities. On the one hand, the state's fiscal income is dwindling; on the other hand, its fiscal expenditure burden is mounting. As a result, the budget deficit is growing: The 1989 deficit has topped a whopping 9.535 billion yuan.

Under the contract system, although enterprises' realized profit as well as retained profit have increased,

enterprises have been slow to upgrade their technologies and state-owned assets have not appreciated in value; things have even deteriorated in some enterprises. Take Jilin Province's budgeted industrial enterprises for example. The amount of current fund they own as a percentage of the total amount of current fund has plummeted from 24.8 percent in 1983 to 10 percent in 1988. This indicates that most enterprises tend to spend their additional retained profit on increasing personal income. According to data gathered in Jilin Province, the budgeted industrial enterprises spend as much as 50-60 percent, or even 70 percent in some cases, of their retained profit on workers' benefits and bonuses. In particular, some contract managers' personal income may be as high as 100,000 yuan a year.

Pre-tax debt payment remains one of the main factors that prompts enterprises to invest recklessly regardless of economic efficiency. Since state tax revenue is being used as collateral when enterprises borrow money, their investments are risk-free. This is why extensive expanded-reproduction has persisted. On the one hand, extensive expanded-reproduction hampers the readjustment of the industrial structure; on the other hand, it prevents enterprise investments from becoming more economically efficient. Consequently, year after year, the scope of pre-tax debt payment continues to grow and the pre-tax debt balance continues to snowball: The state's budgeted enterprises' 1988 pre-tax debt balance had been 44.07 percent larger than the previous year's, and the 1989 balance grew another 23.53 percent.

The above problems demonstrate that although the enterprise contract system has demonstrated its effectiveness as a motivating mechanism, there are still many problems when it comes to strengthening the constraint mechanism. How to balance the interests of the state, enterprises, and the workers; how to balance accumulation and consumption; how to balance long-term interests and immediate concerns—there are no easy answers to these questions. They are the crux of the perfection and development of the enterprise contract system.

*Restructuring of the industry and business tax system has yielded some results. The remaining imperfections must await the deepening of the reform process.*

The pattern of China's present industry and business tax system was set after the Third Plenary Session of the 11th Party Central Committee to meet the needs of the general policy of reform and opening up and the development of the socialist commodity economy. It is a multiple-tax system that establishes the circulation tax and income tax as the main tax categories. With this system, we have begun to give play to taxation's regulatory and control role via multiple tax categories, in different links, and at several levels. Today's reformed industry and business tax system is superior in the following ways:

This tax system has broken through the forbidden zone which kept the state from collecting income tax from

state-run enterprises and has changed the administrative superior-subordinate relationship between the state and state-run enterprises into a profit allocation relationship based on the law. It compels state-run enterprises to compete with enterprises of different economic status in a similar tax environment.

The ad valorem tax adopted by most industrial sectors solves the problem of double taxation and facilitates the forging of lateral economic ties between enterprises of different economic status and satisfies the needs of developing socialized greater production.

The direct income tax imposed on individual citizens helps to even out the excess income difference between individuals and eases the conflict resulting from unfair income distribution, and it gives the citizens a stronger sense of what taxation is about.

It establishes a preliminary tax system that involves foreigners and extends special tax favors to foreign businesses. This will help attract more foreign capital and bring in more foreign advanced technologies, satisfying the needs of our policy of opening up to the outside world.

The impact of restructuring of the industry and business tax system on the government's fiscal revenue is clear. Today, industry and business tax accounts for more than 90 percent of the government's total revenue, and it is increasing fairly rapidly year after year.

The positive results of the restructuring of the industry and business tax system cannot be denied, but there are still many problems that must be solved as reform deepens:

One, the tax structure is still unbalanced. Primarily, there are too many tax categories and the system is too complex; some categories should be merged. For example, enterprise income tax varies with the economic status of the enterprises, and there are several enterprise income taxes which are very similar in nature. The tax burden is uneven, which prevents enterprises of different status from forging lateral ties and from competing. Moreover, some tax categories obviously are no longer appropriate in the present stage of economic development; some tax categories should have been established but have yet to be set up.

Two, the nominal tax rate is high but real taxes are low. The nominal rate of enterprise income tax may be as high as 55 percent, but large pre-tax debt payment reduces the actual tax burden substantially; for instance, state-run enterprises' real income tax is under 30 percent. In addition, many loopholes and problems, such as numerous tax preferences, generous tax exemptions and reduction, and control and management difficulties, can be found in the circulation tax and other tax categories.

Three, the regulation and control scope of taxation is not compatible with the economic development. Primarily, the scope of taxation in the investment link is too

narrow, and this hampers efforts to regulate the direction and structure of investment and to control the scope of investment. Meanwhile, the tax rate on some trades and products in the production link does not support the state's industrial policy. The way taxes are levied in the consumption link needs to be improved; it does not give play to the role of taxation in regulating and controlling the consumption-mix and the consumption funds.

Four, the tax management system is plagued by unclear, unreasonable, and haphazard delineation of authorities. Authorities that should be centralized have not been centralized, and what should be devolved has not been devolved. Meanwhile, the scope of local taxation is too narrow, which hampers the implementation of the classified-tax system.

These problems in the existing industry and business tax system cannot be solved without thorough reform to "separate taxes and profits, require enterprises to pay debts with after-tax funds, and stipulate after-tax contract bases." They turn out to be the same problems which the perfection and development of the contract system must solve.

*Development and perfection of the contract system and the restructuring of the industry and business tax system should complement each other and promote each other.*

It is not difficult to discern that in some respect there is an intimate relationship between the perfection and development of the contract system and the restructuring of the industry and business tax system. The main problems that must be solved in order to improve the contract system—such as improving the way responsibility and rights and privileges are integrated, tempering enterprises' internal management mechanism which envelops the enterprise self-restraining mechanism, balancing the interests of the state, enterprises, and the workers, and reinforcing the accumulation mechanism by adjusting the national income allocation pattern—can be solved only if reform is implemented to "separate tax and profit, require enterprises to pay debts with after-tax funds, and stipulate after-tax contract bases." In other words, developing and perfecting the contract system and deepening the reform of the tax system should complement each other and promote each other. Specifically, we should address the following issues:

Only by truly "separating taxes from profits" can we solve the core problem of the contract system; that is, only then can we separate ownership rights from management rights and integrate responsibility, rights, and privileges. Upon separating profits and taxes, the state, as society's manager, collects taxes from enterprises. Meanwhile, as property owner, it should give a reasonable share of the profit to enterprises to give play to their role as managers, so as to resolve the issue of how to integrate responsibility and rights and privileges in management and administration.

To develop and perfect the contract system, we must first adjust the national income allocation pattern, raise the

government's share of revenue as a percentage of the national income, and install a strict accumulation system. The restructuring of the industry and business tax system, which separates taxes and profits and requires enterprises to pay their debts with after-tax funds, also aims to increase the share of industry and business tax revenue as a percentage of the national income and to enhance taxation's wealth-gathering and regulation and control functions. Both endeavors share the same goals.

Another important aspect of the development and perfection of the contract system is to make enterprises' internal mechanism, with the self-restraining mechanism at its core, more stringent. On the other hand, the deepening reform of the industry and business tax system, which focuses on the separation of taxes and profits and the payment of debts with after-tax funds, will also help to make enterprises' self-restraining mechanism more stringent by streamlining and merging the tax categories, adjusting the tax items and tax rates, unifying the income tax and circulation tax systems, balancing out the tax burden of enterprises of different economic status, and making taxation more fair, so as to promote competition.

In short, the goals of perfecting and developing the contract system and the thorough reform of the industry and business tax system are the same. The major problems they face in the next step of reform are related, and in practice, the two processes can give impetus to each other. Therefore, we should not separate the two or pitch one against the other; instead, we should coordinate the two efforts and let them promote each other. This is not only necessary in the deepening reform of this rectification and improvement period but is also an issue which must be resolved during thorough reform in the Eighth 5-year Plan.

### Consumption, Investment, Savings Viewed

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[Article by Guo Shuqing (6753 2885 3237) of the Economic Research Center of the State Planning Commission, revised February 1990, edited by Yuan Fan (6678 1581): "Consumption, Investment, and Savings"]

[Text] Macroeconomically China seemed to have changed increasingly to an extent beyond people's comprehension. While economists were crying in dismay about the "double inflation" of consumption demand and investment demand,<sup>1</sup> all of a sudden both consumption and investment seemed to have coagulated, warehousing and storage of goods sharply increased and the markets were in a weak state. Concurrently, although there was a slowing down in the growth rate of the so-called "consumption fund," yet it still has remained at a level of two digits<sup>2</sup> showed a rather limited decline in the growth rate). Last year, the planned reduction on the scale of fixed assets investments had been 20 percent;

but actually the reduction was only around 11 percent. Hence, people thought that the investments seemed to still be too high. Using this to measure gross demand, there did not seem to have been a large decrease. Yet how was it that difficulties in sales were generally prevalent? If it were not that practical economics had deviated from the usual laws, then certain serious problem must have existed in the economic concepts to which we have all along been accustomed.

This article will not directly discuss the current economic situation. On the contrary, its main purpose is to make a realistic description of the macroeconomic gross volume and the trend of the changes in its basic structure since the reform and employ this as a common basis to find a solution of the above-mentioned problem. If the government's current purchases and the expenses of a nonbusiness or operational nature of the enterprises are both regarded as belonging to the realm of "social consumption" which people are all familiar with and in the majority of cases no consideration is given to the receipts of net essential factors from abroad as well as the disparities between imports and exports, then the discussions will be centralized in consumption, investment and savings and their reciprocal relations.

### Certain Preconditions for Analysis of Gross Volume

In order that discussions on the problem may proceed smoothly according to a rational concept system, it is necessary to explain several important preconditions:

#### Scope of definition of gross volume

The duality nature of the current system which corresponds to the duality nature of China's current economic system is a problem first met with in carrying out any macroeconomic research and study. Although our country's traditional macro-economic accounting has certain differences from the typical MPS, yet basically it still belongs to the "system of material balance table" (MPS). In recent years, concurrently with the continued use of the old method, based on actual economic needs, we have begun to introduce the use of the GNP statistical indices and, in principle, the method used belongs to the "national economic accounting system" (SNA) fixed by the United Nations. Research by economists and statisticians have shown that these two accounting methods have their strong points and weak points and in principle the results attained by them are mutually convertible.<sup>3</sup>

We have chosen the gross accounting of the SNA as the basis of analysis in this article. The reason is: Although China's economy still retains a portion of the traditional direct control elements, in the majority of cases the prices of products and services are subjected to the restrictions of regulation by market mechanism. Compared with MPS, SNA is more suited to the macroeconomy of handling fluctuations in the general level of prices because it concurrently examines and comprehensively measures the volume changes in products, services, currency, assets and so forth. Second, SNA is selected because of its direct and convenient nature in

fully assessing and evaluating tertiary industry (services enterprises) in the macroeconomic research, whereas at the present stage of China's economic growth, expansion of the tertiary industry carried an exceedingly prominent significance and if we do not directly consider its position and influence, there may be missings in actual analysis and this may even affect the basic judgement of the gross volume structure. Third, since SNA embraces an extensive scope it can offer various angles to various kinds of actual analyses. Fourth and lastly, adoption of the SNA method helps in carrying out extensive international comparisons.

#### **Difference between gross volume balance and macroeconomic equilibrium**

If the gross production volume of the national economy (broadly speaking the national income and also the GNP).<sup>4</sup> is equivalent to the gross volume of use then there is a balance. Put in formula, gross volume balance is  $Y$  equals  $C$  subscript 1 +  $C$  subscript 2 +  $I$  +  $(X - Z)$

Of the above,  $Y$  is GNP;  $C$  subscript 1 is residents' consumption;  $C$  subscript 2 is social consumption;  $I$  is gross investment;  $X$  is exports and  $Z$  is imports. If  $S$  is defined as gross savings, then we can obtain the following:

$$C \text{ subscript } 1 + C \text{ subscript } 2 + S = C \text{ subscript } 1 + C \text{ subscript } 2 + I + (X - Z)$$

After adjustment, the formula is:  $S = I + (X - Z)$

For a long time, we have been accustomed to a sort of conclusion that balance of the gross volumes can be natural only under the conditions of prices being able to freely fluctuate. A further analysis shows that breaking the balance of the gross volumes is nearly impossible. In the 40 years of our country's history of economic development it has not been able to find any evidence of an imbalance of this kind. Even during the period of the "great leap forward," the gross output volume of the national income and the gross volume of expenditures were balanced. Due to the limit of space, regarding this problem we shall not discuss the detailed evidence thereon.

But equilibrium, so-called, carries an entirely different significance. It is true that a state of equilibrium is a state of the balance of the gross volumes. However, it is a special kind of state of balance. In this state, a fixed level of savings and the wishes for investment are entirely unanimous, the consumption inclination remaining constant. Under such a condition, prices remain stable and the scale of the national economic activities remain unchanged. This is a sort of pure state without time limit, but in actual economic life, consumption inclination and investment inclination cannot remain unchanged at the same time and the savings inclination is all the more difficult to maintain with the inclination

of the wishes for investment. Deviation from the equilibrium point in economic operations constitutes vibration or fluctuation and the larger the extent of deviation, the wider the scope of fluctuation while the realization or manifestation of this sort of fluctuation is indicative of the gross volume balance of the national economy shifting from one state of affairs to another state of affairs.

#### **Demarcating between static volume and floating volume.**

Experiences have shown that in the study and discussions on macroeconomic problems many troubles have arisen from confusion between the concept of static volume and that of floating volume. It should be clearly understood that in macroeconomic accounting and macroeconomic analysis the main object is the floating volume. If the static volume is concerned then it is only due to the condition of the conversion of floating volume into static volume, that is, a net increase to the static volume. Viewed from the microeconomic standpoint, any static volume can be directly converted into floating volume. But in the macroeconomic context, only the static volume of visible assets, through abrasion with fixed assets in the course of production can be converted into floating volume.

The basic difference between static volume and floating volume is that the former is a quantity at a fixed point of time whereas the latter is quantity measured through a span of time. Hence, the former does not have a quantitative network of time while the latter cannot lack a quantitative network of time. For example, money as a sort of financial asset, is static volume while income is floating volume.

The complexity of the problem lies in that a variable in certain instances can belong to the category of floating volume while in certain other instances can be static volume. Thus we must be extremely cautious and must use the concrete conditions to differentiate between them. For example, savings, when taken as assets, is static volume but when in the form of distribution and use of income, it is floating volume. Regarding this we cannot make a fixation which does not allow the least bit of change.

#### **Consumption and Investment**

Consumption and investment are the gross amounts of products and services ultimately used in the country and hence are the most important variables affecting and determining the macroeconomic level and condition.

Our current statistics do not contain indices of the gross amount of the entire products and services involved in residents' consumption. In the residents' consumption item listed in the consumption amount of the national income, what is counted is the whole of material products in the residents' consumption. But this item embraces two portions: one is the material products used

by the residents; the other consists of the material products (fuels, raw materials, and wear and tear of fixed assets) consumed by the nonmaterials departments in rendering services to the residents. Obviously here a problem exists and this is that the residents' consumption volume does not include fully the services in residents' consumption.

Since the statistics on the residents' consumption volume of the national income do not include consumption of a non-material nature such as services rendered, it is necessary first of all to add on this portion of value. Accordingly, based on the typical data of a number of years, we have made an estimate and the results are shown in Table 1 below:

**Table 1. Estimate of Residents' Consumption Based on Current Statistical Calibre**

	(Unit: 100 million yuan)									
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Statistics of residents' consumption	1,910	2,223	2,473	2,688	2,957	3,395	4,240	4,773	5,477	6,958
Discrepancies in service consumption	119	118	115	130	146	216	312	419	484	585
Readjusted total consumption volume	2,029	2,341	2,588	2,818	3,103	3,111	4,552	5,192	5,961	7,543
Of which: products consumption	1,831	2,126	2,359	2,570	2,827	3,246	4,053	4,571	5,238	6,649
Service consumption	198	215	229	248	276	365	499	621	723	894

Note: Sources of data: Statistical figures of residents' consumption of national income from the Statistical Yearbook of China, 1989, p 38; other data were estimated.

If we are to carry out accounting of the national economy on the context of completeness, then there are various problems needing research and investigation regarding the statistics on national income and on the GNP.<sup>5</sup> Hence, our discussions cannot be governed by the current statistical system without regard to these factors. Regarding residents' consumption there are several problems that cannot be overlooked and may be mentioned as the following:

1. Statistical omissions. Certain product consumption items of residents have not been included in the consumption volume. For example, a portion of the receipts in kind of the staff members and workers are not included in the retail sales volume in social consumption and in the residents' consumption volume, consumer goods handled in underground economic marketing are not included in the statistics and so forth. Similarly, the statistics have omitted certain consumption items resembling services rendered to residents. However, since the amounts involved are small and there is much difficulty in differentiation, we have taken exception to them.

2. Financial subsidies. Price subsidies and subsidies for losses incurred by the enterprises made by the Finance Department currently take up over 30 percent of the financial income. Of the financial subsidies by far the great portion ultimately benefit the residents. As a result of the subsidies, the residents' consumption volume computed on the basis of the gross volume of retail sales has been underestimated.

3. Subsidies on house rent. The subsidies on residence consumption are principally realized through investment without accounting of benefits. Despite the fact that current expenditures of the enterprises and the state

have not reflected any large portion of subsidies on residences, yet they are factually the constituent parts of the residents' income and consumption outlay and in essence they are the current items.

4. False or nominal house rent. In SNA, regarding housing consumption in the case of residents owning their residences the stipulation is that estimate must be made on the basis of the market rental or at least according to the depreciation cost. Since our country's GNP statistics are estimated on the basis of the low rental of public housing, they are far from reflecting the actual cost, not to say the market rental.

#### *How then should we handle these factors?*

As for the low estimate of the residents' product consumption volume caused by the statistical omissions, we should, after comparing the statistics on the residents' purchases of consumer goods and their consumption volume as recorded in the statistics and making due references to investigations and estimates made by other departments, have the differences found duly added on.

Regarding price subsidies, we follow the provisions of the SNA, treat them as indirect taxes of negative value, thus offsetting and reducing the state's indirect taxes and at the same time when computing the residents' consumption volume have the corresponding value added on.<sup>6</sup> Although price subsidies are distributed to different stages of the purchases and sales of products, yet in the last analysis they are for the purposes of maintaining the low-value policy of consumer goods and hence here we shall have their full amount added on to the grand total of the residents' consumption.

Deficit subsidies to enterprises consist of a special feature differentiating China from countries of the market economy. They may be treated as income tax of negative value or as deliveries of profits to the treasury, thus offsetting and reducing the state's income and at the same time on the side of outlay and use the amount should be added on to the expenditures of the purchasers. In principle, like price subsidies, deficit subsidies to enterprises are a sort of compensation to producers and operators for losses caused by low-price and low-interest-rate policies. According to an analysis of the deficit subsidies distributed to the industries and trades, about 60 percent of them are for the benefit of the resident consumers. Here, this portion is added on to the grand total of the residents' consumption volume.

The above-mentioned two items have already been included in the GNP computed on the basis of the net output value of the various departments. In other words, they have been included in the GNP statistics based on the production statute. Hence, financial subsidies will

change the amount of the residents' consumption but does not change the statistics of the GNP value based on the production statute.

The problem of the insufficiency in the estimation or assessment of the subsidies on house rent and false or nominal house rent can be separately studied and can also be jointly examined. The problem is: the actual computation of rational rent is not an easy matter. The suppositions here can only take on rent on production cost without considering any value-increment or a rational rental level comprising the various factors of operational profit, insurance charges, tax on land use, and sundry maintenance costs all contributing to the making of a production unit. In the rent in production cost, the most basic is the depreciation amount of residence assets. In our suppositions, the national average depreciation period of residences is 20 years which is the same as the depreciation rate currently in force in industry. Considering the fact that in the vast rural areas there are still many simple brick and timber houses and even mud dwellings, this average depreciation rate is not at all high. Table 2 below gives the results of a computation on depreciation of residences.

**Table 2. Depreciation of Residences in Country (Computation of Assets Based on Replacement Prices)**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Average building cost, residences in country (1)	40	43	47	50	48	61	71	72	81	112
Total area of residences in country (2)	90	102	111	120	130	141	152	165	176	185
Replacement gross value of residential assets (3)	3,600	4,386	5,217	6,000	6,240	8,601	10,792	11,880	14,256	20,720
Gross amount of depreciation of residences (4)	180	219	260	300	312	430	540	594	713	1,036

Notes: 1. Yuan/sq. meter. Computed according to investment made and housing areas completed through the years; readjustments on certain years.

2. Unit: 100 million sq. meters. Should have been building area but due to incomplete data, could be between use area and building area.

3. Unit: Hundred million yuan.

4. Depreciation rate: 5 percent; unit: Hundred million yuan.

Source of data: Computed according to relevant materials from *Statistical Yearbook of China*, 1989, pp 477, 508, 719 726, 742 756.

Doubtlessly, depreciation must be based on the replacement value of the fixed assets and not on their original value. SNA has specially emphasized this. However, in Table 2 there do exist the different factors of either too highly estimating or too lowly estimating the depreciation of the residences. We assume that they just about offset each other.

As for the other items under the rental in the building cost, we have also adopted simple measures to handle them, that is, assuming that the value-increment from housing services currently already incorporated into the GNP is sufficient to offset such items as maintenance cost, administration fees, investment interest, real estate tax and so forth (though this is not the case according to computation). After so treating, it may be found that the depreciation amount computed in the above is the

amount of residence subsidies and false or nominal depreciation which the current statistics have omitted in the GNP and residents' gross volume of consumption. Obviously, the amount should be duly added on both of these two gross volume indices.

After the above-mentioned several readjustments, both the residents' gross volume of consumption and the GNP will show definite changes (See Table 3 below). In the table, readjustment of the GNP was only an initial one, while in the insufficiently computed volume of residents' consumption of products a portion is what the statistics have not included in the computation of the GNP. These we shall leave aside temporarily, to be handled later. Further readjustments will be made when examining social consumption and investment. Here the table offers only a reference value.



**Table 3. Readjusted Residents' Consumption Volume and GNP**

	(Unit: 100 million yuan)									
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Financial subsidies which should have been included in residents' product consumption	251	326	414	435	486	490	454	452	521	584
Statistical omissions which should have been included in residents' product consumption	56	123	169	182	209	290	415	490	575	631
Portion of house rent not included in residents' services consumption	180	219	260	300	312	430	540	594	713	1,036
Readjusted residents' product consumption	2,138	2,575	2,942	3,187	3,522	4,026	4,904	5,513	6,334	7,864
Readjusted residents' service consumption	378	434	489	548	588	795	1,039	1,215	1,436	1,930
Readjusted residents' gross consumption	2,516	3,009	3,431	3,735	4,110	4,821	5,943	6,728	7,770	9,794
Readjusted GNP (1)	4,178	4,689	5,033	5,493	6,121	7,392	9,108	10,320	12,064	15,051

Note: 1. The readjusted GNP figure is the future of the GNP in current statistics plus the portion of house rent omitted.

### Social consumption

The social consumption volume of national income shown in the current statistics will need two readjustments before it can become our hoped-for (including the whole value of the social consumption of a services nature) figure of social gross consumption value. First, inclusion of nonmaterial outlay in services rendered to social public bodies (including expenditures in the nature of salaries and wages of such departments as education, science and technology, culture, public health, national defence, social security, administration and so forth and the input, intermediary purchases and labor made by these departments in the

course of their activities; and second, in view of the too-low estimation of the abrasion and wear-and tear of the fixed assets of departments providing consumption services of a social nature, a renewed and rational estimate should be made and the difference be included in the value-increment of these departments and the gross volume of social consumption. Our supposition is: computation of the depreciation rate of fixed assets be set at 4 percent; replacement prices are fixed according to the assumption of a rise of 93 percent in 10 years' time. Table 4 gives the general results:

**Table 4: Readjustment of Social Consumption Gross Volume and the Influences on the GNP**

	(Unit: 100 Million Yuan)									
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Social consumption volume of national income, according to statistics	285	308	326	366	401	510	639	775	863	1,013
Non-material outlay expenses in providing social services	278	276	239	246	290	311	424	472	515	599
Depreciation differences on fixed assets of social services departments	72	78	90	108	122	150	183	235	278	344
Social consumption gross volume	635	662	655	720	813	971	1,246	1,482	1,656	1,966
Readjusted GNP (1)	4,250	4,767	5,122	5,601	6,243	7,542	9,291	10,555	12,342	15,395

Notes: 1. Readjustment here is based on Table 3 with depreciation differences on fixed assets of social service departments added on.

Sources of materials: *Statistical Yearbook of China*, 1989, p 38, on figures of social consumption volume of national income; other items and figures estimated on basis of relevant data.

In social consumption, services rendered by government departments are the most principal consumption objects. The problem that can readily arise is: in the value of the services and production rendered by government departments (both related to consumption)<sup>7</sup> is it necessary to compute the wear-and-tear on fixed assets and if so how should the computation be made? SNA prescribes the computation of this portion of value because without so doing, accounting of the volume of flow of national income, expenditures, production and consumption would find it difficult to maintain unification, integrity and balance. However, in any country computation of the depreciation volume of the fixed assets of government departments is technically very difficult. For this reason, certain countries (such as the U.S.A.) do not directly take account of the wear-and-tear value of fixed assets but have widened the limits of government's current-period purchases and thus included a fixed amount of investment. In matter of fact, this has taken purchases of fixed assets during the year as intermediate input into government's production and services and entered into the value of the production cost. Thereby there is no need to compute depreciation.<sup>8</sup> In our country in the past there was the practice of computing the depreciated value of fixed assets of non-material departments but the adoption of this direct method may be perhaps more appropriate.

#### Investment or capital formation.

In contrast with residents' consumption and social consumption, the current statistics on investment are the most complete. Moreover, in respect of SNA's stipulations on capital formation, in a certain sense the volume of investment indicated in the statistics has the problem of being "over-complete." The principal points are: 1) Levying of the land tax should be deducted from the general body capital formation of the national economy. 2) In computing the whole country's investment volume or volume of fixed capital formation the net input of sales of the fixed assets should be deducted from the whole investment outlay. The statistics of our country do not make a sufficient deduction. 3) In the type of capital formation of roving assets accumulation, as stipulated in the SNA, the entire price factors should be deducted. In the statistics in recent years, although readjustment measures have been adopted in part, deduction of the price factors has still not been enough. 4) Statistics on investment in fixed assets included definite factors of consumption and intermediate input.

Nevertheless, the problem of insufficient computation of the investment volume still exists at the same time. An outstanding case is that when individual residents themselves build their own houses they frequently and in varying degrees adopt the form of mutual-aid in the building work. Under such conditions, investment expense cannot fully manifest the actual outlay and thereby there results in a low estimate of manpower computation expense in the construction cost. Second, investment gross volume should include, in principle, the portion of overhauling and repairing outlay in the

renovation and transformation investments and this has not been included in the statistics. Third, insufficient estimation of value increment from soil improvement, development of plantations, orchards and so forth and increases in the population of breeding stock, draught animals, and milking cows. Fourth, consideration generally has not been given to reduction in investment expenses due to the financial subsidies.

The most ideal method is: take the factors of the above-mentioned two sides, separately calculate the correct amounts and make due adjustments on the investment volumes in the statistics but this measure will be seriously restricted by the shortages of information and data. Hence, we must simplify the problem. One possibility is: Based on the theory of balance of the gross volumes, we can deduct from the GNP the whole consumption volume and the net export amount and obtain therefrom the figure of domestic gross investment. The only problem here is whether or not the GNP has been fully estimated. In the foregoing we already added on to the GNP in the statistics a portion of the insufficient estimation. Now we still need to add on the value increment of the production departments or production activities related to the fixed assets. For example, we may mention the insufficiently-estimated portion of the building workers in the individual's investments and the various kinds of expense and outlay of essential elements in capital construction and land improvement separately incurred by the various sectors of agriculture, forestry, animal husbandry, fisheries and so forth. More importantly, readjustment must be made of the value increment omitted in the statistics, that is, the value increment which technically the statistics cannot directly classify into any concrete industrial department. This portion of income basically consists of the income of the individual resident and hence when comparing the statistics and estimates on the residents' total income and total outlay we have treated the portion of the excess of outlay over income as value increment omitted by the statistics.

After adding on the above-mentioned value increment not incorporated into the statistics to the figure of the gross value of GNP which was previously readjusted based on the consumption factors (see Table 4 above), we obtain in theory the figure of the gross volume of the GNP after all the necessary readjustments. Deducting therefrom residents' consumption volume and social consumption volume and further deducting the net export figure, we obtain what we need here figures of the yearly gross investments. The gross investment volume includes fixed assets investment and circulating assets investment (net value-increment in storages). Gross investment is equivalent to SNA's so-called gross value of capital formation. Table 5 below was planned and computed according to this method.

Table 5. Gross Investments in GNP (1)

	(Unit: 100 million yuan)										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
GNP	4,250	4,767	5,122	5,601	6,243	7,542	9,291	10,555	12,342	15,395	—
Investments underestimated	114	202	247	267	318	411	557	660	796	987	—
Readjusted along with statistical omissions	4,364	4,969	5,369	5,868	6,561	7,953	9,848	11,215	13,138	16,382	18,979
Residents' consumption	2,516	3,009	3,431	3,735	4,110	4,821	5,943	6,728	7,770	9,794	11,142
Social consumption	635	662	655	720	813	971	1,246	1,482	1,656	1,966	2,202
Net value of exports (2)	-24	-20	11	74	51	9	-407	-355	-76	-201	-30
Gross volume of investments	1,237	1,318	1,272	1,339	1,587	2,152	3,066	3,360	3,788	4,823	5,665

Notes: 1. 1989 figures were estimates.

2. Net value of exports consisted of differences between exports of products and labor and imports.

Source of data: Computations based on Tables 3 and 4 and other materials. Of the net value of exports, figures for 1982-1987 were computed based on *China Financial Statistics*, compiled by the Department on Statistics of the People's Bank of China, published by the China Finance Publishing House, on the relevant figures on international balance of payments therein, and on the foreign trade figures in *Statistical Yearbook of China*, 1989; figures for other years were estimates.

### Opening Up of the Internal Relations of Investment

In the foregoing discussions we have from beginning to end treated investment as a single gross volume and made a general survey of its decreasing or increasing relations with consumption. However, just as the differentiation between residents' individual consumption and social consumption embodying important significance, certain basic divisions in investment internally are extremely important to macroeconomic research and possess even greater value.

### Fixed assets investment and circulating assets investment.

In computing gross investment we have met with, in the fixed assets investment targets of current statistics, various factors which may cause high estimation and low estimation. Although separation of the extent of the influences of these factors is extremely complex, it is not entirely impossible. If we consider that the influences of these factors may ultimately offset each other, what is of

importance is the net disparity value between them but this disparity value definitely cannot be specially large. This being the case, we should rather overlook all these factors altogether in the assumption that their negative and positive sides completely offset each other. Here, we shall take the gross volume of the whole social fixed assets investments as shown in the statistics as the basis for analysis. It is at all possible that the disparity from the actual may not be too large.<sup>9</sup> Deducting the fixed assets investment volume in the statistics from gross investment, we obtain instantly the circulating assets investment volume. Table 6 below shows the results of the computation, and also makes a comparison with the circulating assets accumulations in the statistics. It is interesting to note that although in concept the circulating assets accumulation volume is entirely the same with the definition scope of circulating assets investment (or circulating capital formation) under the SNA system, yet, the value figures in the statistics are vastly different from the value figures in our estimates.

Table 6. Fixed Assets Investments and Circulating Assets investments

	(Unit: 100 million yuan)										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989*
Gross investments	1,237	1,318	1,272	1,339	1,587	2,152	3,066	3,360	3,788	4,823	5,665
Fixed assets investments	1,020	980	1,057	1,230	1,430	1,833	2,543	3,020	3,641	4,497	4,000
Circulating assets investments	217	338	215	109	157	319	523	340	147	326	1,665
Circulating assets accumulation volume	323	272	328	267	296	343	745	748	580	766	—
Differences in circulating investments, statistics, and estimates	106	-66	113	158	139	24	222	408	433	440	—

Notes: \* Estimated.

Source of data: Computations based on Table 5 and relevant materials on pp 42, 477, and 563, *Statistical Yearbook of China*, 1989.

If we form a table showing the proportion or ratio occupied by fixed assets investment and circulating assets investment respectively in gross investment volume and the GNP, then it will be easier to show their position and significance (see Table 7). In the past 10 years and more, the gross investment rate first dropped,

then rose and subsequently recovered the level in the early period of the reform, averaging around 28 percent. The changes were not too large. The fixed assets investment rate followed the changes in the gross investment rate and changed but in certain years, the direction was an inverse one.

**Table 7. Comparison of Fixed Assets Investment and Circulating Assets Investment**

	(Unit: Percent)										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<b>Proportion of gross investment:</b>											
Fixed assets investment	82.46	74.36	83.10	91.36	90.11	85.18	82.94	89.88	96.12	93.24	70.61
Circulating assets investment	17.54	16.90	9.89	17.06	3.88	29.39	25.64	8.14	14.82	10.12	6.76
<b>Ratio of GNP:</b>											
Gross investment	28.35	23.69	24.19	31.14	28.83	29.85	26.52	22.82	27.06	29.96	29.44
Fixed assets investment	23.37	19.69	21.80	25.82	27.71	21.08	19.72	20.96	23.05	26.93	27.45
Circulating assets investment	4.98	6.80	4.00	1.86	2.39	4.01	5.32	3.03	1.12	1.99	8.77

Note: Source of information: Computations according to figures in Tables 5 and 6

Circulating assets investments have frequently been treated as passive or nondesirable investments. Within an economic system of a relatively high economic efficiency, the level of circulating assets investments cannot be too high. The rate of circulating assets investments has frequently been the indicator of macroeconomic fluctuations. Its increase is generally the sign of the economy turning from hot to cold whereas its fall is a sign of the economy turning from cold to hot. Circulating assets investment is subjected to restrictions from desirable investment or investment by intention on the one hand and from consumption on the other. If the ratios of consumption and desirable investment are both on the rise, the rate of circulating assets investment will fall and the reverse is also true. If the desirable investment rate falls but is not accompanied by the consumption rate, then the rate of circulating assets investment may rise and also may fall. In 1989 an unprecedented situation occurred. The relative volumes of wishes investment and consumption both fell but there was a large-scale increase in circulating assets investment. The appearance of this phenomenon was epoch-making in China's macroeconomic history.

#### Gross investments and net investments

In the gross investments a portion is the supplementing of fixed assets lost through abrasion and wear and tear while another portion belongs to newly added visible

assets. The latter constitute the net investments. The key in correctly fixing the level of net investments lies in making a rational assessment of the depreciation volume. But computation of depreciation is not an easy matter in any country. Frequently it is in the nature of an estimate.

In our country's existing accounting system of depreciation the problems are a low depreciation rate and failure to use the prices of replacement; a result of this is insufficient estimation. After all, how high should the depreciation rate be fixed before it is deemed adequate and what methods should be used in liquidation, checking and accounting of the amounts of fixed assets still need to be discussed and studied. Herein we have selected a program: the depreciation rate of enterprise departments is fixed at 8 percent, that of government departments, four percent, residents' self-owned residences, 5 percent and fixed assets of other individual persons, six percent; the replacement prices of fixed assets rose 93 percent from 1979 to 1988. The results of the computations according to this program are shown in Table 8 below. Of course, accounting programs with other depreciation rates may be selected, but regardless of whatever rational depreciation rate and replacement prices be adopted, a common point will possibly appear and that is over the past 10 years and more the net investment rate of our country has shown a downward tendency.

Table 8. Depreciation Volume and Net Investments

	(Unit: 100 million yuan)									
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Depreciation gross volume	829	947	1,045	1,166	1,385	1,720	1,943	2,303	2,663	4,112
Net investments gross volume	408	371	227	173	202	432	1,123	1,057	1,125	711
Ratio (percent) of gross investments:										
Depreciation	67.02	71.85	82.15	87.08	87.27	79.93	63.37	68.54	70.30	85.26
Net Investment	32.98	28.15	17.85	12.92	12.73	20.07	36.63	31.46	29.70	14.74
Ratio (percent) of GNP:										
Depreciation investment rate	19	19.46	21.11	19.74	20.27	19.05	19.87	21.63	20.54	25.1
Net investment rate	9.35	7.47	4.23	2.95	3.08	5.43	11.40	9.42	8.56	4.34

Note: Source of data: Computed according to Table 5 and other relevant materials

### Equipment investment and other investments.

In our country's statistics, there are no special indices for equipment investments. However, in the statistical classification of the formation of fixed assets investments, there is an item on purchases of equipment, tools and instruments. Before 1982, this kind of statistic was found only in the capital construction investment of units under the system of ownership by the whole people. According to statistics, the proportions occupied by equipment investments in the total capital construction expenditures were as follows: "first 5-year plan," period 30.3 percent; "second 5-year plan" period, 37.2 percent, the three years' readjustment period, 30.1 percent, "third 5-year plan" period, 33.1 percent, "fourth 5-year plan" period, 35.8 percent, "fifth 5-year plan" period, 30.3 percent, but from 1981-1985 of the "sixth 5-year plan" period, only 19.7 percent, and in 1986, 24.4 percent.<sup>10</sup> Generally speaking, the relative weight of equipment purchases in capital construction investment was lower than that in society's fixed assets investments by four to five percent because the proportion of construction expenses in renovation, transformation and other investments is greatly smaller than in capital construction investments. Computed on this basis, before the reform the proportion occupied by equipment investment in the whole fixed assets investments was between 35 percent and 42 percent while since 1979, this proportion averaged below 27 percent.

The proportion of equipment investment in gross investment was generally above 30 percent before the reform but averaged around 23 percent since the reform. The relative weight of equipment investment in the GNP was generally above 10 percent before the reform and averaged around 6 percent since the reform. Doubtlessly under the conditions of there being no big changes in the investment rate, the rapid and sharp growth in residence construction and other housing construction served as the major cause in leading to these changes.

### Investment and Savings

Gross savings constitute the portion of the GNP not used in the current period consumption outlay, being the sum of depreciation and net savings. In the equation of gross volume a related formula may be fixed, that is,  $S$  equals  $1 + (X - Z)$ , that is, gross savings equal gross investments plus net value of exports and regardless of whether  $(X - Z)$  yields a positive value or a negative value, the equation stands. On another side, according to definition, gross savings are equivalent to the sum total of the savings of the various organizations and departments in the country's economy, that is,  $S$  total equals  $S$  residents +  $S$  enterprises +  $S$  Government.

### Level of gross savings

Under the pre-condition of gross investments and net exports being known, it is very easy to compute gross savings. Here, net exports become the difference between gross savings and gross investments. When net exports yield a positive value, it denotes that the domestic gross investments are smaller than gross savings; when net exports show a negative value then it indicates domestic gross investments being larger than gross savings. This differential corresponds to the country's economy absorbing foreign savings and changes in the foreign exchange reserves (including assets abroad) of the country or it may be said to be the sum total of the two. Further, it needs to be explained that savings are a form of the distribution of the GNP of the current year and are not the whole assets of the accumulations through the years but may become the newly added assets of the current year. Hence, savings are not all deposits, while deposits are not all savings; savings may be employed on investment but investments are not all savings.

Seen from the absolute figures, over the past 10 years and more the growth of gross savings has been most rapid. In 1979 they amounted to 121.3 billion yuan but in 1989 the amount was 563.5 billion yuan. Seen from

the relative levels (that is, the gross savings rate), in the majority of years the relative weight of gross savings in the GNP was lower than in 1979. Only beginning from 1989 was there a little excess. In 1989, the level was 29.69 percent, a rise of less than two percent over 1979. Hence, in using the cumulative method in computation, it is found that the average annual growth rate of gross savings was lower than the growth rate of the GNP. Before the reform, the level of the average investment rate was relatively high and the net value of exports

frequently was a positive figure. From this it can be assumed that since the reform the trend of the gross savings rate had been on the downturn and that only in recent years did the situation begin to be rectified. In particular, in 1989 the rise was on a relatively large scale. If we still adopt the above-mentioned method of estimating the gross volume of depreciation, then, deducting depreciation from gross savings will yield the net savings. Seen from Table 9 below, in the past 10 years, on the average, the fall in the net savings rate has been rather conspicuous.

**Table 9. Gross Savings Level and Net Savings Estimates**

	(Unit: 100 million yuan)										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Gross savings	1,213	1,298	1,288	1,413	1,638	2,161	2,659	3,005	3,712	4,622	5,635
Depreciation	829	947	1,045	1,166	1,385	1,720	1,943	2,303	2,663	4,112	—
Percent of GNP:											
Gross savings rate	27.80	23.90	24.97	27.00	28.25	29.69	26.12	24.08	27.17	26.79	28.21
Net savings rate	8.80	7.06	4.43	4.21	3.86	5.55	7.27	6.26	7.98	3.11	—

Note: Source of information: Computations based on Tables 5 and 8.

#### Composition of gross savings.

Under the realistic conditions of the small scale of nonprofit making organizations in our country and the shortage and lack of accounting data of financial organizations, we have reduced the composition to three separate sectors, namely, enterprise, rank-and-file government and residents, of which the enterprise department comprises all financial and nonfinancial enterprises as well as collective economic organs in the rural areas. Residents' savings refer to their post-tax income used on individual fixed assets investments, purchases of stocks, bonds and securities, participation in the outlay on social funds-raising, and the volume of changes in the residents' cash in hand and bank balances. Enterprise savings and government savings both refer to their balances of end income after expenditures on social consumption.

Residents' savings has been one of the variables featuring the strangest changes in the national economy since the reform. Seen from the absolute level, in 1989 their amount was 371.4 billion yuan which compared with the 29.6 billion yuan in 1979, showed an increase of 11.5 times or 1150 percent while during the same period the residents' consumption increased by 3.5 times or 350 percent.<sup>11</sup> Seen from the levels in contrast, in 1979 residents' savings amounted to less than one-fourth of all the savings but in 1989, the ratio approached two-thirds, and the proportion in the GNP rose from 6.8 percent to 19.57 percent. On the other hand, although generally speaking the absolute amounts of enterprise savings and government savings were on the up-trend, the relative amounts were on the downturn, with the fall being rather drastic in certain years. (See Table 10):

**Table 10. Composition of the Departments of Gross Savings**

	(Unit: Percent)										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Gross savings	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Residents' savings	24.40	31.90	32.03	34.54	44.75	50.58	50.02	59.53	61.15	62.70	65.91
Government's savings	31.82	25.65	26.11	22.51	24.05	24.11	24.33	22.20	16.38	11.12	—
Enterprises' savings	43.78	42.45	41.86	42.95	31.20	25.31	25.65	18.27	22.47	26.18	34.09

Note: Source of data: Computations based on relevant data; enterprises' savings were balances after deducting residents' savings and government's savings from gross savings.

In short, in the more than 10 years of the reform, the composition of the departments of gross savings has gone through a conspicuous two-level change. Originally government and enterprises were the principal bodies of savings (occupying 75.6 percent in 1979) but now residents have become the principal body in savings (65.9 percent in 1989). Before the sum total of savings of

government and enterprises was 300 percent of the residents' savings now residents' savings have made up about 50 percent, or slightly less, of the whole. The source composition of investment funds used to have government as the principal body but now banks have taken over. These are both related to the intensive change in the composition of gross savings. However,

another fact should also be mentioned: the results of power delegating and ceding of interests have not enabled the enterprises to obtain any large amount of self-owned funds in support of self-transformation and self-development. This is because relatively speaking their income (savings) which factually they can dispose of and use on investment accumulation has been decreasing in a sustained manner. In this context, enterprises have truly behaved as "financial gods on the march pass."

#### Comparison between savings, investment and consumption

GNP may be divided into the two portions of consumption and savings and at the same time is the sum total of consumption, investment and net value of exports. Here we have made a description of its structure (see Table 11) and from the table we can see the various increases, decreases and changes.<sup>12</sup> What the residents obtain are such financial assets as cash and bank deposits and a portion of fixed assets belonging to the individual person.)

Table 11. Ratios of Consumption, Investment and Savings in GNP

	(Unit: Percent)										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Residents' consumption	57.65	60.56	63.90	63.65	62.64	60.62	60.35	59.99	59.14	59.79	58.71
Social consumption	14.65	13.32	12.20	12.27	12.39	12.21	12.65	13.21	12.60	12.00	11.60
Gross consumption	72.20	73.88	76.10	75.92	75.03	72.83	73.00	73.21	71.75	71.79	70.31
Gross savings	27.80	26.12	23.90	24.08	24.97	27.17	27.00	26.79	28.25	28.21	29.69
Gross investments	28.35	26.52	23.69	22.82	24.19	27.06	31.14	29.96	28.83	29.44	29.85
Net exports	-0.55	-0.40	0.21	1.26	0.78	0.11	-4.13	-3.16	-0.57	-1.23	0.00

Source of information: Computations based on Tables 5 and 9.

Before the reform, the proportion of consumption in the GNP used to be lower than 70 percent while the savings rate was constantly above 30 percent. But in the 11 years since the reform consumption on the average occupied 73 percent of the GNP while the savings rate was 27 percent.

#### Several Conclusions

In the above discussions and survey, undoubtedly certain errors may be found. However, even though we give full recognition to the various indefinite and possible mistakes and omissions, this rough survey still can provide us with certain conclusions.

1. Since the reform, in China's economy there has never appeared a state of complete equilibrium, but from beginning to end the macroeconomic gross volume is a balanced one. The key of the problem lies in that the realization of this sort of balance in gross volume possesses a special regulatory nature: First, the average consumption has been rising and residents' consumption has been particularly more so. Under the conditions of an average downturn in the trend of savings, investment should likewise have been falling before there was the possibility of maintaining the balancing of the gross volumes in the state of equilibrium. However, under the relatively lax conditions in money supply, investment would strive for a larger share and this would lead to the balancing of gross supply and demand under the preconditions of a rise in the general level of prices. If the role of such a kind of mechanism were lacking, the relative weight of consumption would be even higher. Second, China's economy does not sensitively react to the net increased volume in goods under storage or existing

assets (circulating assets investment) and the form of its reaction is also greatly different. When investments in storage goods rise, the enterprise does not necessarily depress production while government frequently consciously or sub-consciously treat it with the policy of enlarged consumption. As a result, double effects are generated: On the one hand this prevents economic depression and promotes equilibrium but on the other hand the supply structure cannot be readjusted and the gross volume of demand cannot be reduced, resulting thereby in aggravating currency inflation. Third, despite the reaction of government and enterprises to prices being in lack of flexibility, residents in China do possess relatively speaking an extremely sensitive reaction to price movements. Hence, the rise in the prices of consumer goods plays a relatively conspicuous role in restricting consumption. Added to this is the historical and cultural heritage of diligence, thrift and economy and the savings rate on the part of the residents is on a sustained rise. This in turn slows down consumption demand and provides an assuring foundation for investment demand, thereby slowing down the speed of currency inflation. This is the reason why even under the conditions of a rise in the general level of prices, balance can still be not far off from equilibrium. In 1989, certain unusual changes made their appearance although it is still too early to conclude that there has been a basic deviation from the track of the past. In that year, the consumption ratio showed a rather large decline, savings rose, the sensitivity of the enterprises' reaction to the increase in the storage volume of goods greatly increased and the level of international investments not only relatively but also absolutely declined on a large scale. This on the one hand was the result of the macroeconomic policy and on the other hand displayed signs of shifting in the mechanism. We shall discuss this in another article.

2. Over the past 10 years and more, it may be said that the phenomenon of excessive demand or gross demand exceeding gross supply constantly existed but it also must be acknowledged that the concept of the so-called excessive demand was arrived at through measuring gross supply according to prices of the preceding year against gross demand at the current year's prices.<sup>13</sup> This frequently makes the two sorts of problems become mixed and confusing: One attributing the inflation in social consumption and investment demand to the loss of control over financial credits and loans and the other alleging that due to the stiffness in the character of the salaries and wages of the staff members and workers, the imperfection of the markets, and the anticipated rise in production cost and in prices the demand on the supply side to raise prices is insistently rigid and strong, compelling the purchase side to increase outlay and finance to lax its restrictions on credits and loans. In China, both of these two categories of factors exist and exist in a manner of depending on each other and functioning in respect of each other. For this reason, we cannot simply stress the first side and as a matter of act the influences from the second side are also extremely conspicuous. For example, in the majority of years, the growth speed in the income of the individual was greatly faster than the rise in the index of prices of consumer goods. Again, investments in goods or assets in stock, though varying each year, have from beginning to end maintained a relatively high level whereas in the developed countries net increases in the state's goods or assets in stock usually occupies two to three per mil of the GNP, besides there being figures of negative value in many of the years.<sup>14</sup> In a normal commodity economy, if only there is excess in demand, then goods in stock should decrease in volume and not increase and if demand is restricted then the level of salaries and wages should fall and not continue to rise. However, in China, these contradictory phenomena can completely coexist in peace. Hence it may be said that currency inflation is rooted in the existing structure and this is also the deep-lying cause why balance of the gross volumes from beginning to end has taken the rise in commodity prices as the precondition.

3. It is gratifying that although compared with the pre-reform period, the consumption rate has risen and the savings rate has declined, yet the discrepancies are still not too great and, besides, in the latter period of the past 10 years and more a reverse trend has clearly appeared. The fact that domestic savings can from beginning to end generally maintain a stature of being higher than, or equal to, the fixed assets investment level undoubtedly plays an inestimable role in easing and improving the economy which suffers from the restrictions of resources and is facing the heavy pressure of currency inflation. Facts in 1989 have demonstrated the existence of the possibilities in full of lowering the consumption ratio, raising the savings rate and enhancing fixed assets investments, that is maintenance and development of the existing good trend. Nevertheless, the opposite possibilities similarly exist, that is, due to the further inflation of the income of the individuals,

a consumption high tide makes a renewed appearance and for the sake of maintaining economic coordination, it might be necessary to effect large increases capital import and other imports in general, thus ultimately leading to complete reversal of the situation. The task of the macroeconomic policy is precisely to completely prevent the occurrences of such consequences.

4. As a developing country which has not yet realized industrialization, it is normally rational that for a prolonged period of time China indulges in the utilization of savings abroad, maintains a net inflow of capital and allows the existence of a fixed amount of adverse balance of foreign trade. However, analysis has shown that inside the country the potentials of accumulations have not yet been fully tapped, and we cannot hope for raising the savings rate through keeping the people's standard of living unchanged or even sliding downward. But it should be possible to make the growth rate of the residents' consumption become lower than the growth speed of the GNP, or lowering the relative weight of the residents' consumption in the GNP. Seen for a longer period, due to more investments and faster development, the actual level of the residents' consumption can be enhanced even faster and the absolute scale of the residents' consumption can be even be larger. Results from various vertical and lateral comparisons made, in the past 10 years and more consumption in our country has been making large forward strides. From one side this illustrates that the economic strength of our country could well stand an even higher level of savings and accumulations. On the other hand, in our country there still exists a traditional social protection and welfare scheme for the staff members and workers of more or less an all-inclusive nature, that the burden of many longterm consumptions has not yet been shifted to the residents, and that implementation of the reform will lend force to stimulating the savings trend of the residents. It must be said that in our government and enterprise departments the degree of waste and extravagance has been very great in their ordinary expenditures, but if the relevant systems are improved, there is much margin left for savings and accumulations. Social insurance schemes for owners of individual enterprises and the peasants are still not yet in the planning stage. When and as they are established a large amount of longterm stabilized savings funds can also be formed. From all these indications it can easily be seen that measures and means to enhance the savings rate can readily be found.

5. The 30 years before reform gave people a painful lesson: that the accumulation level could not be too high. In the belief of many economists the best level for China's accumulation rate should be about 25 percent of the national income but this experience was acquired under the traditional structural conditions. We should remember that in that kind of economy supply and demand were artificially segregated, benefits were lacking in the allocation of resources, the investments were highly blind in character and as a result a high



accumulation rate could easily produce results which were opposite to the wishes. Since reform, concurrently without sacrificing consumption growth, increasing the investments could also generate excessive demand and besides the problem of the structure of the investments themselves has existed for a long time. This has intensified the above-mentioned impression of the economic circles that the investment rate was too high. The factual survey carried out in the early portion of this article showed that this impression had no firm basis because changes in the gross investment rate were not large and the net investment rate, rate of investment by intent and equipment investment rate were all conspicuously on the downturn. Speaking from the standpoint of the gross volume, if only the rise in the investment rate takes the fall in the consumption rate as the precondition, then there will be no malignant results. But on the structural side assuredly certain intensive efforts must be made, although this is not at all a problem that cannot be solved, because the readjustment targets have already been made clear, measures of rectification and the corresponding policies and measures for structural reform have become increasingly clear before our eyes. An apparently right but actually wrong impression has falsified people's observation and judgement, making people believe that raising the investment (particularly fixed assets investment) level may be workable in value volume but not in the volume of goods in kind, because with regard to investment goods and articles the supply-demand relationship has for many years been in a stringent state. In reality, because the distribution and use of the GNP has continuously slanted toward consumption and because of the twisted state of the price structure, for many years production of consumer goods in the country has been much faster than the growth of goods or articles for investment. Moreover, the continuously expanding structure of export and import trade has benefitted the increase of consumer goods in the country and reduced the supply of goods for investment. For example, take the case of the ratio of machinery equipment in the imports, in the 1950's the ratio was on the average over 50 percent but in the 1980's the ratio dropped to only around 25 percent. Although the ratio of raw materials was still rather high, yet the ratio used on investment and the manufacture of investment goods has been on the decline.

6. The problem and program of the rapid growth of China's economy is not as complicated, this direct feeling is all the more intensified. Speaking from the present stage, if only more and sufficient investments can be procured for such basic and bottleneck industries and trades as communications, energy, raw materials and so forth, their supply can sharply increase and the flying rise of the economy can truly become a reality. This will need our handling of the problems which have been mentioned as well as those which have not been mentioned, and very likely bring us headaches, troubles and difficulties. Nevertheless, we firmly believe that there is always a way out.

#### Footnotes

1. According to usual custom, generally speaking, investment or investment demand refers to fixed assets investment; this article will make a new definition for investment.

2. In 1989, the growth rate of the gross volume of salaries and wages was 14 percent, an obvious decline in speed compared with the preceding year, but if we take into account the various kinds of receipts outside salaries and wages the whole "consumption fund" (meaning individual income) showed a rather limited decline in the growth rate.

3. Refer to *Comparison of National Economic Accounting System and National Economic Balance Table System*, compiled by the Statistical Office of the Economics and Social Affairs Department of the United Nations, and translated by Min Qingchuan, China Finance and Economics Publishing House, 1981 edition.

4. In this article, in using GNP as the index of the macroeconomic gross supply and demand, due to the still low degree of our country's economically opening up to the outside world and the extremely small amount of receipts from net essential elements from abroad, any difference between the GNP and the gross value of domestic output is disregarded.

5. Under extremely difficult conditions the statistical department of our country has introduced a large number of targets and methods and done a large amount of preparation work and experimental work on reform of the statistical structure. Regarding this each and every statistical worker in economic research has shown much gratification and admiration. The existing problems are ones that cannot be avoided in the transitional period and embody many and complex causes. The views offered in this article are a sort of probing work and possibly are not quite correct.

6. This handling may cause problems when computing the GNP; now temporarily disregarded.

7. Government departments not only are administrative organs but also include government departments in the broad sense such as the organizations on education, science and technology, culture, public health, public security, national defense and so forth.

8. In reality, in residents' consumption there is also a similar and simplified method of handling which is permitted by the SNA. For example, strictly speaking the durable consumer goods purchased by a resident's family cannot have whole value consumed or written off in a year's time but if this method is not employed then we must calculate the yearly depreciation of durable goods which is an extremely difficult and tedious work.

9. Readers please take note of our assumption here. Under other circumstances, we may possibly give up this assumption in which case the net disparity value will have to be computed and the necessary readjustment will

have to be made on the fixed assets investment volume in the statistics; by so doing the proportion between fixed assets investments and circulating assets investments in the gross investment will show changes.

10. See *Statistical Yearbook of China*, 1987, p. 475.

11. It can thus be seen that the so-called "consumption fund" is a concept that can easily cause the utmost confusion. Under the traditional system, there was little difference between people's income and their consumption outlay and the amount of savings was hardly worthy of mentioning. Hence, it would be entirely possible to use the term "consumption fund" to take the place of "individual income" or "income subject to the individual's disposal." But when individual's savings have increased on a large scale and become the important source of investment funds, the terminology of "consumption fund" seemed to have become rather absurd and strange, since now residents' savings have precisely become "investment funds."

12. People often have the idea that gross demand can be transferred from one period to another period. In reality, the time period not only at income but all economic resources cannot be transferred because they are of a circulating nature. In each and every microeconomic partial circumstance, there does exist the transfer or ceding of income but in the macroeconomic gross volume, this is impossible. Seen from the angle of residents' consumption, the balance of purchasing power, so-called, of residents is the balance from income being larger than purchases but examined from the gross volume it is the constituent portion of savings. The corresponding products and services have been used by investment to compose the respective portions of capital formation (fixed and circulating assets). What the residents obtain are such financial assets as cash and bank deposits and a portion of fixed assets belonging to the individual person.

13. Thus, under the conditions of a rising level of commodity prices, the impression given to people seems to be that the cause is due to gross demand exceeding gross supply or to the growth of demand being faster than that of supply. However, if we do the reverse, compute gross supply at the current year's prices and gross demand at prices of the preceding year, then the absolute value of the difference will assuredly be the same, but can we say then that the cause of currency inflation is gross supply exceeding gross demand?

14. See *Compilation of National Accounting and Statistical Materials of Foreign Countries*, edited by the International Statistics and Foreign Affairs Department of the State Statistical Bureau, China Statistical Publishing House, 1987 edition.

### Reexamination of Options for Checking Inflation

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GUANLI [ECONOMIC THEORY AND BUSINESS  
MANAGEMENT] in Chinese No 2, 28 Mar 90 pp 30-35

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[Text] *Editor's note: The author holds that the formulation of the current inflation control policy was based mainly on the fact that the aggregate demand of the macroeconomy is greater than the aggregate supply and that a new aggregate balance can be reached through tight financial and monetary policies. In fact, the main economic reason for aggregate imbalance is the imbalance of economic structure. Because of this, to check inflation, we must consider optimizing economic structure as the point of departure. But the current double-tight financial and monetary policy has missed this crucial target in addition to having obvious side effects. The author suggests that in order to check inflation, we should formulate a policy to tighten the aggregate and decontrol the individual.*

### I

The structural imbalance of the national economy refers to the irrationality in the quantitative ratio of the interrelations of various sectors or aspects of the national economy in the course of social reproduction. According to the demands of socialized large-scale production, different sectors of the national economy and different links of reproduction always depend on and restrict one another, thus forming various kinds of complex ratios to ensure the steady increase and sound development of the national economy. This law first demands the coordinated development of production in two major categories—means of production and consumption. In actual work, this can be demonstrated through ratios between industrial and agricultural production and among different departments within industrial and agricultural production such as the ratio between the light and heavy industries and the ratio between the basic and processing industries within the industrial department. Whether or not the ratios between production and construction and between accumulation and consumption are handled properly is also an important factor affecting whether or not national economic structure is rational. Such ratios are reflected mainly through such index systems as national income, revenue and expenditure, and capital construction investment. In addition, the ratios between industrial and agricultural production and communications and transportation and between production and construction and social life and cultural facilities also reflect the situation of national economic structure.

Before the economic structural reform, under the highly centralized system of a planned economy, we replaced the objective existence of economic law with subjective

utopianism and market regulation with single administrative decrees, thus resulting in the structural imbalance of the national economy.

Since the economic structural reform, we have failed to concentrate our time and efforts on structural optimization. During the same period, we have pursued an unrealistic goal of excessively fast growth and hoped that this goal can be achieved through market guidance which is now being established and does not yet have the function of normal mechanism and through the decision-making activities of enterprises whose microeconomic mechanisms have been weakened and whose short-term activities have been extremely serious ever since the reform. As a result, we have aggravated the problem of nonoptimized structure. The concrete expressions of this are: 1) distorted market signals have caused the processing industry to develop too fast and the basic industry to develop too slowly; 2) errors in the agricultural policy have caused surplus rural population to flow blindly and rapidly to urban areas, the township enterprises of the nonagricultural product multiple processing industry to develop too fast, and agricultural production to develop too slowly; 3) encouraged by the goal of excessively fast growth of production, investment scale, especially the scale of nonproductive investment, has expanded excessively and the consumption fund and the consumption fund of social groups have increased at an extremely high speed whereas the investment of scientific, educational, and cultural departments has declined; 4) the proportion of revenue in national income has declined, expenditure has become rigid, and the financial deficits of the central government have increased.

Generally speaking, after the phenomenon of a fairly serious economic structural imbalance occurs, we should not continue to pursue that goal of high-speed growth in way of the macroeconomic regulation and control of the national economy. Instead, we should focus on economic structural readjustment and strive to realize the optimized alignment of economic structure within the shortest possible period of time. If not, we will worsen various contradictions in economic life. Especially when the effective supply is outstripped by the effective demand, we will cause social investment and individual and institutional consumption funds to expand. Once this phenomenon is formed, it is very easy to cause the cash purchasing power of society which has the ability to pay to substantially surpass the sum total of commodities and labor that can possibly be supplied by society, thus worsening the contradiction between aggregate social demand and supply which will be inevitably demonstrated through price increases. Price increases will again produce the following effects: 1) Stimulate investment. The signal of consistently high market prices leads enterprises to expand production and thereby add more investment. 2) Under the condition where the means of production and consumption are scarce, the prices of the means of production continue to increase, followed by the price increase of consumer goods. 3)

Consumption funds increase too fast. Price increase causes a sharp increase in nominal wages, bonuses, and subsidies. At the same time, social consumption funds used for social and public needs continue to increase as well. 4) Price increase will also cause a change in people's mentality. In order to prevent another price increase in the means of production, producers hoard capital goods which are already in short supply. Due to a loss of confidence in the value of currency, consumers withdraw a large amount of cash, hold cash, waiting to buy, and hoard goods, waiting to sell. In order to maintain necessary money supply, banks have to issue more currency. Under this condition, if we fail to adopt effective measures to reverse the situation, runaway inflation will occur. Our inflation, which is still serious, has been developed basically along this track. To check this inflation, we must analyze it from the phenomenon to the essence and from the result to the cause, hit on the crucial point of the issue, and set forth an effective restraining policy.

## II

To effectively control inflation, we have chosen the financial policy of retrenchment. The financial policy of retrenchment is to achieve the goal of aggregate balance mainly by readjusting such financial regulation parameters as taxes, national debts, subsidies, depreciation, and budgets. Due to the restriction of various factors, some of these parameters have lost all flexibility for readjustment; some have some flexibility but not much room for readjustment; and some have great room for readjustment but the effect is uneven and the point of effect is out of focus as well.

Tax is the most important parameter of finance for the readjustment, especially under the "tax-for-profit" situation. Since the economic structural reform, we have implemented the financial system of "dividing income and expenditure and assigning a part to each level" to bring into play local enthusiasm and repeatedly "reduced taxes and given up profits" to increase enterprises' vitality and ability to accumulate their own funds. On this basis, most state-run enterprises have implemented the management contract responsibility system under which the bases for tax and profit delivery to state financial departments have been specified in the contract. In order to win the confidence of enterprises and strictly enforce the economic contract law, such bases should not be changed easily. After the "substitution of tax payment for profit delivery," according to China's tax system, large- and medium-sized state-run enterprises pay 55 percent of income taxes and an individualized rate of regulatory taxes, and small state-run enterprises pay the eight-level progressive income taxes. These tax rates are already on the high side and have given enterprises too much burden, so they should not be adjusted upward continuously. A major problem in China's taxation is the poor management of collection, not a low tax burden. Thus, it is not suitable for us to adopt the retrenchment policy of raising taxes.

National debts are a kind of parameter of financial regulation that is payable, transferrable, and transformable. Once national debts are contracted, the debtor and creditor relation is fixed for the period of validity, but it can be transferred with a fee through bond market. Because a very large part of funds used to purchase national debts is consumption fund which, after the transaction, is generally used by the state mostly as production fund, national debts have the property of transforming funds. Through national debts, the state regulates the problem of aggregate demand outstripping aggregate supply chiefly by means of readjusting the target of issuance, the amount of issuance and repayment, and the interest rate of national debts. Targets for the issuance of national debts include mainly banks, enterprises, institutions, and individuals. Borrowing from banks is not feasible under the condition of inflation, for it will eventually increase the amount of currency in circulation. Most institutions have state allocations to cover their operation expenses. Asking them to buy national debts is like having the state borrow from itself, which is meaningless. Almost all enterprises have the problem of fund shortage. To be realistic, they do not have the ability to buy national debts. If national debts are assigned to enterprises like an administrative task, most of them can only resort to loans or the reduction of their production scale, which runs contrary to the control of currency issuance and the goal of increasing supply. As far as individuals are concerned, there are two types: 1) wage earners and 2) nonwage earners such as laborers in the individual economy. The ability of the first type to purchase national debts is very limited, but the sale depends on them. Among the people of the second type, some cannot afford it at all such as most peasants; some have great ability but refuse to buy due to various considerations and the government cannot do anything about them such as most individual economic households. The amount of national debts that can be issued is limited. At least it is limited by the purchasing and estimated repayment ability of the public. As of today, a considerable amount of national debts have been issued. Do we have the ability to repay so much when they are due? Because the task of national debt issuance is formidable, some people suggest raising the interests on national debts. I do not deny that it will have some effects, but I must advise that we need to guard against the back flow of bank deposits.

Financial subsidy is an important parameter used by state financial departments to regulate the contradiction between aggregate demand and supply. Financial subsidy can be divided into two categories: productive and consumptive. The effects of the two different subsidies are different. Productive subsidies are used generally when effective supply is insufficient to develop mainly those industries, departments, and individual enterprises which should be but not developed and which affect effective supply. Consumptive subsidies are used generally when effective demand is insufficient in order to increase consumers' purchasing ability so as to

increase effective demand. Consumptive financial subsidy has continued for many years in China and the range of the subsidy is broad and the amount great. In the past 10 years alone, it has accumulated over 400 billion yuan. Because its rigidity has been formed, consumptive subsidy should not be withdrawn during the period of inflation. Productive subsidy has been reduced, obviously. Is this practice correct? People's views vary. I think that we should not practice "uniformity" and reduce it indiscriminately. With regard to those productive enterprises which can increase effective supply, we consider from the angle of economic development and appropriately increase the subsidy in the attitude of assuming responsibility to the future.

Depreciation is an important parameter which financial departments use to regulate aggregate supply and demand and economic structure by raising or lowering the amount of compensation for fixed assets. A retrenchment depreciation policy is aimed to lower the depreciation rate, reduce enterprises' current income, and weaken their ability of reinvestment. Judged from China's current situation, it is not suitable to lower the depreciation rate. Since China is still using the traditional, previous cost method to calculate depreciation under the condition of inflation, it has enlarged the difference between the original value and the replacement value, causing state property to depreciate comparatively. Calculated based on relevant statistical data, in the past five years, about 386 billion yuan of fixed assets have depreciated, approximately equivalent to the gross value of fixed assets which were newly acquired in 1988. Under this condition, it is not recommended to lower the depreciation rate still further both in the political and economic sense. Instead, we should adopt measures to protect the value of state property.

Budget is a basic parameter of financial regulation characterized by advanced planning. Its function is to influence, through the redistribution of national income which is centralized by state financial departments, the productive investment of the central government and local governments at all levels, and the total amount of consumption and its structure. It also determines the amount of increase for the credit funds of banks and the level of the reserves of national supplies. Therefore, it has a great impact on the total amount and structure of the supply and demand of whole society. In this sense, it is possible to reach the goal of reducing the amount of currency in circulation by tightening budget and reducing financial expenditures. However, since the reform and opening up, the dual-track funding system, namely the coexistence situation of budgetary and extra-budgetary funds, has been formed, and extra-budgetary funds have increased rapidly. In 1979, extra-budgetary funds amounted to only 20 to 30 billion yuan, which in 1988 increased abruptly to 227 billion, equivalent basically to the amount of budgetary funds. We know that extra-budgetary funds are not included in the state budget and that they are collected, spent, managed, and used at the discretion of each locality, department, and

unit. Because of this, extra-budgetary funds are scattered, independent, and flexible. Due to our lack of experience in managing extra-budgetary funds, we have yet to come up with an effective management law or regulations. All this has caused the current financial and budgetary retrenchment policy to weaken its control on this part of funds.

Budgetary funds are the main target of the function of the financial retrenchment policy. Reducing this part of funds and cutting down on expenditures (including budgetary expenditures and additional budgetary expenditures) are in fact the main contents of our financial retrenchment policy. Since budgetary funds account for only a half of treasury funds plus the increase of non-treasury funds (such as the funds of private and foreign enterprises), the effect of the tight budget policy is very limited. Judged from volume, the proportion of state revenue in the national income is declining sharply from 31.8 percent in 1979 to 19.3 percent in 1988. The proportion of the amount that can be cut is also very low. Let us take a look at the concrete content of budget cut. Estimated according to relevant information, after entering the 1990's, the central financial department will pay about 40 to 60 billion yuan of capital and interest payments on domestic and foreign debts every year, accounting approximately for 40 percent of central revenue, which cannot possibly be cut. Budgets for social, cultural, educational, and public health expenditures such as the expenses of scientific research, cultural, educational, and medical undertakings are already very tight. A further cut in these areas will produce historical impacts that cannot be estimated. Originally we counted on cutting military spendings, but now we cannot do that because drastic changes have taken place in both the domestic and international climate. Otherwise, we will commit strategic mistakes. The only expenses that can be cut are economic construction, administration and management expenses, appropriations for banks' credit funds, and general reserve funds, etc, but they cannot be cut completely. I will explain this using the example of capital construction investment which we are most concerned about. Capital construction investment can be divided into two kinds: productive and nonproductive. Some items of productive capital construction investment are added for the readjustment of industrial structure. We should do our best to guarantee such items. For instance, we should do so regarding investment in agriculture, energy, communications, and important capital goods production. Otherwise, it would be detrimental to resolving the problem of aggregate imbalance caused by the shortage of effective supply. It would be extremely detrimental to optimizing economic structure and laying a solid foundation for the steady development of socialist commodity economy. It would be detrimental also to getting rid of the inflation headache once and for all and putting the national economy back on the track of a benign circle. This shows that the limitation of the effect of a tight budget policy is very obvious and that a slight mistake in handling may cause greater adverse effects.

Based on the above analysis, I think that a generally and indiscriminately tight financial policy is not a good measure to check inflation and that there is a need to select another anti-inflationary financial policy.

### III

The positive effect of a generally tight monetary policy is obviously insufficient. We should select another new monetary policy.

The so-called effect of a monetary policy refers to the expected results produced by the regulatory parameters of currency such as the amount of currency issued, the deposit reserve rate, the rediscount rate, and open market operations. Generally speaking, neither expanding nor retrenching monetary policy can produce any effect unless the central bank uses the tools of monetary policy it owns to change the behavior of specialized banks and other monetary organizations, and then use such changes to influence the behavior of economic units and individuals in society, thereby achieving the goals of the monetary policy.

In the course of implementing the tight monetary policy, we utilized mainly the amount of currency issued. Our concrete measures mainly include limiting the amount of release of new currency, controlling the scale of credit, and increasing the amount of people's savings and the amount of currency withdrawn from circulation.

The amount of release of new currency is affected not only by policies. The existence of rigid factors such as financial deficits, gold and foreign exchange reserves, and international accounts determines that no matter how tight the policy is the release of new currency is inevitable.

People's savings are an important means for regulating money supply. In China people's savings are cash deposited in anticipation of the purchases of daily goods such as household electrical appliances or out of the concern of safety; there are also some people who save in order to earn interest; unlike under the condition of a capitalist commodity economy, people save mainly for the purpose of real estate purchases, stock speculation, and pensions. This determines the existence of the factor of instability in China's savings. Once market prices fluctuate drastically, a collective withdrawal of massive cash is very likely to occur. Those who save to earn interest are easily attracted to the nonofficial interest rates in society, so they may enter the circulation of funds outside the banking system. It is necessary to mobilize savings, but we should not place too much hope on this. The practice of sacrificing the principal and, still more, the interest war among specialized banks are really undesirable. The savings method that does not consider the cost not only cannot check inflation but will cause a new round of expansion of consumption funds and worsen inflation.

Effective means for withdrawing currency from circulation generally include selling gold (jewelry), selling

imported high-class consumer goods at high prices, and selling part of state property. Since China implements a nongold standard system, people do not expect high values from gold investment, so they do not have a strong desire to buy gold jewelry. Judged from the current situation, the future in importing high-class consumer goods and then selling them at high prices is fairly optimistic, but it is affected by the shortage of foreign exchange. Selling part of state property (mainly public housing) is restricted by people's purchasing ability.

Under the condition of a structural imbalance and the resulting coexistence of insufficient supply and excessive demand, adopting severe loan retrenchment means may be able to hold back excessive demand but it will also smother the ability to increase effective supply. (This is like taking an equal amount of counters off each side of an uneven balance, the balance will still be uneven.) Facts have shown us that whether loans are withdrawn or restricted, large- and medium-sized state enterprises are the first to suffer the most, because such enterprises have strict systems and place great emphasis on planning, their capital circulation is subject to great intervention by banks, and their cadres' initiative for implementing policies is high. Such enterprises are the main source of guaranteed market supply and the mainstay for supporting the socialist economic building of China. About 80 percent of state revenue comes from 9,900 large and medium-sized state-run industrial enterprises. After banks began to tighten loans, problems doubled for those large- and medium-sized state-run enterprises whose circulating funds had been insufficient and obstacles grew in various links of reproduction including production, supply, and marketing. Due to the shortage of fixed funds, outdated equipment cannot be replaced and renovated, and the expansion of reproduction is obstructed. Due to under-capacity operation and employment rigidity, enterprise workers' income will decline. This will adversely affect their initiative, enthusiasm, and creativity under the condition of continuous high inflation. The comprehensive effect of these factors will lead to production slide and reduction. This not only cannot effectively check inflation but adversely affects the increase of effective supply. At the same time, it also weakens the material basis of the national economy available for regulation and control.

Meanwhile enterprises that are not run by the state and those small and medium-sized state-run enterprises which have greater autonomy may adopt counter-monetary retrenchment policy. They may use high interest to absorb idle funds in society and even suck out bank deposits. They may avoid banks' restrictions and engage in cash transactions instead of going through banks for collection and payment, thus causing funds to circulate outside the banking system. Under a tight monetary policy, there is a possibility of developing a capital circulation system outside the banking system because some enterprises which used to belong to the inner-bank circulation system will voluntarily join the

external circulation system when they really cannot take the high pressure of retrenchment. The formation of two capital circulation systems is even more detrimental to the checking of inflation, and its negative effect is even greater. 1) As the channel of circulation extends, the amount of currency will increase within the channel. In contrast, the amount of currency circulating in the main channel of money circulation will decline. 2) As the pressure of the inner-bank circulation system increases, more currency will flow out of the banking system. In order to maintain the flow of money within the banking system, a new supply of money will be added. 3) Due to the influence of clogged monetary circulation and additional issue of money supply, the contradiction between aggregate supply and demand will be worsened.

To sum up the above, it is very hard for the current monetary retrenchment policy to produce the desired result of checking inflation. It is imperative to choose a new policy.

#### IV

To choose a new anti-inflation policy, we must consider optimizing economic structure as our point of departure, increasing effective supply and effectively checking excessive demand as our foothold, and the rectification and improvement campaign, the deepening of reform, and economic development as an integrated project.

To effectively carry out the above ideas, we must also put special emphasis on handling the following relations:

1. The relation between the effective control of the amount of currency issued and the input of necessary production development funds. Inflation, no matter what type, always manifests itself as, on the surface, an oversupply of money in circulation and price increases. Adopting effective measures to control the amount of currency issued is necessary. But when the shortage of effective supply resulting from an irrational economic structure is the major cause of inflationary problems, we should also pay attention to the input of production development funds to overcome the contradiction of too much currency and not enough funds. We should increase the input especially for departments, industries, and enterprises which can help optimize industrial structure and increase effective supply.

2. The relation between enterprise bankruptcy and merging and enterprise development. We should force, through relevant policies, those backward enterprises which have high input and low output to go bankrupt so as to reduce the waste of funds and raw materials. This is particularly important during the period of inflation. Allowing high-efficiency enterprises to merge some low-efficiency enterprises is also conducive to alleviating the aggregate and structural problems. At the same time, we should also develop a few new enterprises in a planned manner, and support those enterprises which have high economic efficiency and good social returns to help them

overcome problems brought about by such factor as price increase, tide over the difficult period, and bring about development.

3. The relation between enterprise policy and financial and monetary policies. Industrial policy is the basic economic policy of socialist commodity economy. Financial and monetary policies are the concrete forms of industrial policy in financial and monetary fields. Financial and monetary policies have their own salient features but they must be formulated in accordance with the requirements of industrial policy and produce effects that are consistent with the requirements of industrial policy.

According to the above demand, we should choose financial and monetary policies that are tight with aggregate and loose with individual and enable retrenchment to serve decontrol. We should ensure that retrenchment and decontrol are interwoven, that emphasis is given to both retrenchment and decontrol, and that retrenchment serves decontrol.

The content of retrenchment and decontrol should be determined according to two rules: national economic plan and market. There is now a very strong tendency to negate the planning of socialist commodity economy, maintaining that whatever is needed by market is rational. Here we need to expound the following views: When the theory of socialist planned commodity economy was put forward, its guiding ideology was how to use market regulation to make the operation of a planned economy more scientific and enable the socialist commodity economy to become vital and yet orderly. To make economic operations orderly, economic planning is required to plan a market by taking into consideration production direction and total, investment direction and total, and currency circulation volume, speed, and direction on the basis of the aggregate supply and demand problem of market. It should also reflect market. Like two hands of a man, economic planning and market regulation can control the operation of a commodity economy. Economic planning should take the general laws of commodity economy as its basis; commodity economy should take economic planning as the condition for the ensurance of its full development. We must always do so when we implement the policy to check inflation.

According to the two rules of planning and market, we think we should continue to tighten: 1) Consumption funds. First, we should strictly control especially the consumption of institutions. Second, we should stop increasing individuals' consumption funds and strengthen control of wages, bonuses, and various subsidies. 2) Production. First, we should tighten township enterprises whose leading products are not multiprocessed farm products, enterprises which consume too much foreign exchange and are unable to earn much

foreign exchange, enterprises which are of less importance to the national economy and the people's livelihood, and manufacturers whose commodities have saturated market. 3) Funds. We should strengthen the management of budgetary and extra-budgetary funds. In principle, state revenue will not be used to support projects listed as items to be tightened. We should focus the management of extra-budgetary funds on the link of circulation and adopt necessary blocking and freezing measures to force them to be included in the planned management. Banks should tighten or refuse to issue loans for consumption purpose, general nonproductive capital construction, and projects that are productive but have little effect as to increasing effective supply.

Areas for decontrol: 1) Sectors include agriculture, the mining industry, energy, and communications. We should put as much funds saved as a result of retrenchment as possible in these sectors and industries and give them necessary policy considerations such as tax reductions and loans with interest paid by state financial departments. 2) People's investment. We should adopt stimulant measures to mobilize the people's enthusiasm for investment and strive to transform more consumption funds into production funds. 3) Housing construction. We should adopt all feasible measures and try our best to channel the consumption funds which cannot be transformed into production funds into the renovation, remodeling, and building of houses. 4) We should give necessary preferential treatment to such nonproductive departments as cultural, educational, and scientific research departments and increase their budget as much as possible. Banks should also make an effort to give them priority in regard to loans so as to facilitate the efforts to correct the major errors committed during the 10 years of reform.

#### Further Enterprise Mergers Seen Desirable

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[Article by Jin Guansi (6855 0385 4828) of the Economic Management Department of the State Restructuring of the Economic System Commission: "Further Promote Enterprise Mergers"]

[Text] *Editor's note: General demands on enterprise merger in 1990 are strengthening guidance, vigorously promoting, coordinating with the improvement and rectification campaign, and improving work quality.*

Large and medium-sized cities where conditions permit may consider establishing or perfecting the enterprise mergers market or other agencies.

The improvement and rectification campaign has provided a good opportunity for enterprise mergers. Practice has proven that enterprise merger is an effective measure to suit the needs of the improvement and rectification campaign and readjust economic structure and that it is a way of organically combining the



improvement and rectification campaign with the efforts to deepen the reform. General demands on enterprise mergers in 1990 are strengthening guidance, vigorously promoting, coordinating with the improvement and rectification campaign, and improving work quality.

**Enterprise mergers should unfold closely around the goals of the improvement and rectification campaign and economic structural readjustment.**

During the period of improvement and rectification, we should have a new understanding of enterprise mergers. We should consider it as an important measure for readjusting economic structure. At first, enterprise merger was promoted as a measure to turn deficits into profits. Generally, through mergers the products of merged enterprises are changed or improved or the productive factors of merged enterprises are used to expand the production of superior products of parent enterprises to produce economic returns. This in fact has the effect of readjusting product mix and industrial structure. Therefore, through enterprise merger we can achieve the dual purpose of turning deficits into profits and readjusting structure. Through enterprise merger we can combine the readjustment of existing assets and the tilting of growth to achieve the effect of readjustment.

**It is necessary to further strengthen the government's guidance over the work of mergers.**

To make enterprise mergers work for economic structural readjustment, the government needs to strengthen its guidance: 1) one government organ should be designated to take charge of the organizational coordination work in enterprise mergers and other departments concerned should give full cooperation while assuming their own responsibility; 2) it is necessary to conscientiously analyze the current situation of local enterprises, arrange them in the order of importance and urgency according to the state's industrial policy and major economic efficiency indexes, and put forward merging plans. 3) it is necessary to study new problems arising in enterprise mergers, work out local policies and various necessary rules and regulations for specific situations, and ensure that there are standards and procedures to follow to increase the success rate of enterprise mergers; 4) large- and medium-sized cities where conditions permit may consider establishing and perfecting the enterprise mergers market or other agencies; 5) efforts should be made to review the experience of enterprise mergers, grasp typical cases, and promote work in all areas.

Efforts to strengthen government guidance should be combined with efforts to respect the wishes of enterprises and their workers. With regard to merging behavior and desire in line with the industrial policy, the government should not use administrative power to stand in the way or add inappropriate conditions. If enterprise workers cannot immediately accept a merger that is in line with the industrial policy, the government should do a good job to avoid causing unnecessary

sequelae. It should also avoid forcing them to merge or transfer at loss and having superior enterprises pick up the burden.

**It is necessary to study and formulate policies that will promote enterprise mergers.**

While continuing to implement the "Temporary Provisions on Enterprise Mergers," all localities should pay attention to solving the following few problems in accordance with the new situations in enterprise mergers:

—Study and formulate concrete policies to support the superior and suppress the inferior. In view of the current situation that the number of enterprises which want to merge has declined and that of enterprises which want to be merged has increased, we should focus the promotion of enterprise mergers on arousing the enthusiasm of superior enterprises for mergers and support superior enterprises in regard to funds, energy, and raw materials. As for those enterprises which should be but are unwilling to be merged, we should stop "blood transfusion and oxygen supply," give them no more tax reductions, subsidies, or loans, and even adopt such measures as cutting off supplies, water, and electricity, increasing taxes, and imposing fines of interests to cut off their retreat and force them to accept mergers.

—Proceed from reality and be flexible in selecting the form of enterprise mergers and alleviate the difficulty of merging enterprises caused by the shortage of funds. During the period of improvement and rectification, we should try to enable merging enterprises to complete mergers using little or no investment. 1) when merging state enterprises in the same district, we may adopt the method of administrative transfer; 2) when carrying out compensated mergers among enterprises of different ownership systems or in different districts, we suggest using the form of taking over the debts. When adopting this method, first we should carefully check property and assets and clarify creditor's rights and debts to stop all loopholes. Second we should allow the debts of merged enterprises to be paid back in stages; 3) with regard to mergers through purchase, we may consider letting "empty-shell enterprises" which have more debts than assets to declare bankruptcy first under the prerequisite that they have already found the target of merger. Merging enterprises will then buy at a price determined during account settlement and pay back whatever deficits and debts the merged enterprises may have with one lumpsum payment; 4) we should vigorously advocate the method of absorbing shares, namely the owner of a merged enterprise should use the net asset of his enterprise to buy shares of the merging enterprise and become one of its shareholders. Adopting this method will enable superior enterprises to merge without costing any money. This method is especially suitable to transregional and inter departmental mergers.



—Set reasonable prices for the compensated transfer of assets and fees for the transfer of related assets. In enterprise mergers, we should pay more attention to calculating efficiency. To determine the prices of assets, we should be flexible in selecting the form of merger and resolve the issue through discussion, under the prerequisite that we will not cause any losses to public assets. We should not overemphasize the prices and surface value of assets. Instead we should use the prices acceptable to both sides.

The departments concerned should charge only the actual amount of fees needed for the procedure and reduce and remit such charges as much as they can to try to minimize the burden of merging enterprises.

—Maintain the property and credit level of superior enterprises. We may consider keeping the accounts of the two sides of a merger separate for 2 years, practice independent accounting and evaluation within each unit, and unify the accounts two years later. Or we may set an influence coefficient and use it as a basis for deducting the influence of the merged enterprise on the targets of evaluation for the period of two years.

—Two ways to handle the workers of collective enterprises which have been merged into state enterprises: One is to maintain their original status and count them as above-plan employees who will not be laid off; the other is to hire them as contractors of state enterprises if needed on a voluntary basis with the approval of labor departments.

—Correctly handle the wage issue of workers of the merged enterprises. This issue needs to be handled differently according to different situations. 1) If a merged enterprise loses its qualification of legal person and its workers are placed among the workers of the merging enterprise, its wage and bonus level should float with the economic performance of the merging enterprise. 2) If an enterprise keeps its original establishment but cannot deal with the outside independently, and has become de facto a sub-plant or workshop of the merging enterprise, it should work out definite evaluation standards and gradually switch to the wage standards and measures of the merging enterprise according to the situation of the implementation of evaluation standards. Its wage and bonus level may float with the economic performance of its own unit or the merging enterprise. 3) If a merged enterprise still maintains its status of legal person but has switched to another line of production and changed the nature of its production, it should also work out definite evaluation standards and, according to the situation of the implementation of the evaluation standards, gradually switch to the wage standards and measures of the merging enterprise. Its wage and bonus level should float with the economic performance of its own unit. 4) If a merged enterprise maintains the status of legal person and its leading products and industrial nature have not changed, its workers cannot change their original wage standards

and their wage and bonus level should float along with the economic performance of their own unit.

### **Market-Oriented Reforms Compatible With Planned Economy**

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[Article by Zhang Zhuoyuan (1728 0587 0626): "The Planned Commodity Economy and Market-Oriented Reforms"]

[Text] Viewpoints of economic theorists have diverged rather sharply recently over the issue of whether China should stick to market-oriented reforms. I feel that if we are to establish a new socialist planned commodity economy, we must adhere to market-oriented reforms. In readjusting the guiding philosophy of reform, we should not include market-oriented reforms as a target of readjustment.

### **Market-Oriented Reforms Must Be Advanced in Order To Develop the Planned Commodity Economy**

The Central Committee affirmed in an October 1984 decision regarding reform of the economic system that the socialist economy is a planned commodity economy based upon the system of public ownership. This clarified that the goal of China's economic reforms is to establish a new planned commodity economy. Once the theory of a planned commodity economy was in place, it marked the end of a major theoretical controversy which had been going on for a long time among economists (into the early 1980's) concerning the issue of whether being a commodity economy was a decisive factor in determining whether an economy was socialist in nature. The tired out idea that a commodity economy and a planned economy were mutually exclusive was abandoned. The formulation and development of commodity economy theory has been publicly acknowledged as the most important breakthrough in China's economic theory during the last ten years.

Establishment of the theory of the planned commodity economy did not bring discussion among economists to an end. With regard to the question of how to understand the planned commodity economy, some scholars have emphasized its planned aspect while others have emphasized its commodity economy aspect. However, no matter how widely understandings or emphases may vary, there is one point upon which all agree: the socialist economy is a combination of a planned economy and a commodity economy, the law of value is an internal, objective law which determines the manner in which the socialist economy operates, and the economic reforms must expand the relationship between commodity and currency and bring the role of the market into play.

There are relatively sharp disagreements regarding such questions as whether a planned commodity economy is the same as a planned market economy, and whether a socialist commodity economy is the same as a socialist

market economy. Some scholars argue against these ideas while others support them.

These comrades who argue against these ideas believe that a market economy is totally incompatible with a planned economy or a socialist economy. The market economy is based on the system of private ownership, and society's production, distribution, exchange, and consumption are regulated spontaneously by an "unseen hand"—the market. Thus, the social economy operates in state of anarchy. Comrades who hold this view also acknowledge that the socialist economy needs to make use of the regulatory function exercised by the market, but they feel that the market, the market regulatory effect, and the market economy are different concepts among which distinctions must be made. They feel that in the operation of the socialist economy, the plan exercises the role of guidance, and that we cannot lose sight of the goals of the plan as we bring the regulatory effect of the market into play. They feel that if a socialist nation gets involved with a market economy, the state will inevitably lose control of the economy, thereby shaking the foundation of the socialist economy.

Scholars who support the aforementioned idea feel that a commodity economy is a market economy, that the operating mechanisms of commodity economies and market economies are all the same, and that the fundamental nature and quantitative parameters of commodity economies and market economies are the same. Those comrades who hold this view generally cite the following passage from Lenin to support this thesis: "Wherever there is a 'social division of labor and commodity production, there is a market.' The market is developed to whatever extent social division of labor and commodity production are developed."<sup>1</sup> From this point of departure, they conclude that a planned commodity economy is the same as a planned market economy, and that a socialist commodity economy is the same as a socialist market economy. The difference between a socialist market economy and a capitalist market economy lies first in the fact that the systems of ownership are not the same (socialism is based on the system of public ownership, while capitalism is based on the system of private ownership) and second in the fact that there are large differences in the ability of these two systems to exercise effective planned regulation throughout all sectors of society.

Some comrades further propose the concept that the market economy is a highly socialized commodity economy. They feel that all market economies are commodity economies, but not all commodity economies are necessarily market economies. In a market economy, the market is the fundamental allocator of social resources. China's commodity economy is already relatively highly developed, but we are still a long way from being able to say that the market mechanism is the fundamental allocator of resources. The macroeconomic regulatory system of market allocation—the commodity economy—which we are trying to establish through reforms is precisely a socialist market economy.<sup>2</sup> Opinions

regarding the question of whether a planned commodity economy is the same as a planned market economy are flatly contradictory, and this has led to differing evaluations of market-oriented reforms. Most people who disagree with this idea oppose market-oriented reforms, while the opposite is true of those who agree with this idea.

I believe that the market-oriented reforms should be affirmed. They should be part of what we refer to when we speak of establishing a new planned commodity economy. If we negate or abandon the market-oriented reforms, it will lead to the negation of various efforts to establish a new socialist planned commodity economy.

First, economic reforms by socialist nations are in essence an attempt to expand the commodity-currency relationship, develop market relationships, and to bring the market mechanism into full play. The difference between the new and the old economic system centers on whether they develop or reject the commodity-market relationship. The reforms must spur the socialization and modernization of the economy precisely through commoditization and marketization, and they must affirm that the development of the commodity economy is a stage in the development of the social economy which cannot be skipped over. The reason why the traditional system must be reformed is that it rejects the commodity-currency relationship, rejects the market mechanism, stifles the economy, and suffocates vitality. It thereby inhibits efforts to raise economic returns from resource allocation and microeconomic operations. In a word, it has impeded the development of social productive forces. If we are to enable the national economy to escape its brittle and semi-brittle state, and if we are to revitalize the economy, we must first develop market relationships, borrow from the strength of the market, substitute market relationships for planned allocation and distribution, and substitute the regulatory effect of the market for administrative regulation. At the same time, if we are to improve returns from resource allocation, change the irrational situation in which production is divorced from demand (whereby supplies of some products run out and sales grind to a halt, while inventories of other products pile up seriously), overcome various types of consumption-related waste, and establish a model of consumption appropriate to our level of economic development, we must rely upon market guidance. In particular, the economic activity of microeconomic entities (enterprises, households, and individuals) cannot all be prescribed by planning organs. Decisions at that level must be made on the basis of signals provided by the market. In a commodity economy, signals of social demand can be found on the marketplace. Ever since we began to implement economic reforms in 1979, China has been revitalizing some of its markets, and vigorously advancing the development of social productive forces by gradually introducing the market mechanism into the economy. The economy is growing more active all the time, there is an ever increasing variety of products on the market, and the people's standard of

living is gradually rising and becoming more diversified. These things have been apparent to everyone.

Second, the market mechanism is a mechanism that is internal to the commodity economy, and the regulatory effect of the market is one of the primary aspects of the operations of the commodity economy. If we are to develop the commodity economy, we must bring the market mechanism into full play. The law of value is the fundamental law of the commodity economy, and the law of value exercises control over the commodity economy via the market mechanism. The market mechanism is generally considered to be composed of the supply-and-demand mechanism, the price mechanism, the competition mechanism, and the risk mechanism. The most important aspect of the market mechanism is that it regulates the relationship between social supply and demand by means of rising and falling prices, and it also affects price levels by means of changes in social supply and demand. The result is the following cycle: prices rise... supply exceeds demand...prices decrease...demand exceeds supply...prices rise, etc. In this process, commodity producers, traders, and consumers compete, and the strong survive while the weak are eliminated. It is in this competitive process that production factors are circulated and resources are allocated. In this manner, activity in the commodity economy goes on continuously, completing the cycle to start over again, automatically maintaining equilibrium between production and consumption. The fact that it uses the market mechanism to control the exchange of production factors and to allocate resources shows that the commodity economy's operations are regulated by the market and not by administrative means. The salient characteristics of regulation by the market are: Relationships between individuals or organizations are lateral, and on an equal legal basis; buyers and sellers are motivated by the desire to earn profits, and prices for buying and selling can be freely adjusted; currency is used in trading activities. On the other hand, the salient characteristics of administrative regulation are: relationships between individuals or organizations are vertical, and one party is subordinate to the other; individuals and organizations are encouraged to accept the use by regulators of administrative methods to enforce their decisions, and these methods are frequently receive legal affirmation; trade is not necessarily carried out on a monetary basis. In a socialist-planned commodity economy, all enterprises under public ownership are producers or traders of commodities which have operational autonomy and are responsible for their own profits and losses. Therefore, the production and trading activities of the great majority of all enterprises are guided by the market. Decisions concerning what commodities are to be produced and traded in what quantity are made on the basis of price and other signals from the market, thereby enabling the exchange of production factors and the allocation of resources. The only exceptions would be a small number of industries which have

natural monopolies, and a few enterprises whose production and trading activities have a large impact on the welfare of the people.

Some comrades deny that the market guides enterprises and microeconomic activities. They feel that all operations in a socialist economy are guided by the plan. To hold this view is to adhere to the traditional model of a planned economy, and to deny that enterprises have operational autonomy or that they are independent producers and traders of commodities. If everything is arranged by the plan, then enterprises become nothing more than beads in the abacuses of government or planning organs, which seriously dampens the initiative of enterprises and the enthusiasm of the broad masses of workers and staff. The core of the economic reforms is precisely the effort to change the system in which all the activities of enterprises are mandated and guided by the plan, and to turn enterprises into truly living economic cells, thereby enabling them to make various operational decisions on the basis of various signals from the market.

It further deepened people's understanding of the economic reforms when we went from acknowledging that the socialist economy is also a type of commodity economy, to confirming that the operations of a socialist economy (by which I generally mean microeconomic activities) must rely primarily on the regulatory effect of the market, and that the economic activities of the great majority of enterprises (including households and individuals) must be guided by the market. Since the economic activities of the great majority of enterprises are guided by the market, this not only signifies acknowledgment that the various types of material products as well as services are commodities and must enter the marketplace, but it also means that every type of production factor (including funds, labor, and land) will also gradually become commodities and will enter into circulation in the marketplace. In this manner, the concept of a socialist market system will inevitably take root. Furthermore, it is precisely in the area of this concept of a socialist market system where China's theory of economic reform clearly forges ahead of that in the Soviet Union and East Europe. It sends a signal that China's economic reforms will be deeper and more comprehensive than those in the Soviet Union or any of the countries of East Europe (always basing our comparisons on the assumption that the countries in question all uphold the basic system of socialism).

Third, the core of the market mechanism is the price mechanism, and the guidance role of the market will be achieved through changes in price. Furthermore, if we are to bring the price mechanism into play and enable prices to exert guidance, we must transform the price model. After ten years of experience in reform, more and more people now accept the idea that price reform requires transformation of the price model. The concept of transforming the price model includes the following three aspects: 1) It addresses the need to develop the socialist commodity economy, allows prices to be formed in the marketplace, achieves a transition from a

system of administrative price setting to one of market price setting, and it does away with unidimensional planned prices, and switches to prices regulated primarily to the market. As the report to 13th National Party Congress states, "we must gradually establish a system in which prices for a small number of key commodities and services are regulated by the state, while prices for the great majority of commodities and services are regulated by the market." 2) It accommodates the need to bring the overall function of the marketplace into play. Prices, which have mainly been an instrument of accounting, are transformed into the most important method of regulation. In order to achieve this, prices must operate in a unified, open, and competitive marketplace. We must break up local isolationism, monopolization of certain sectors, and administrative interference. Third, the price system must become gradually more rational within a relatively sound market system. It must reflect value as well as the relationship between supply and demand, and it must serve as a sensitive, self-regulating mechanism with relatively rational tendencies. The price system includes the prices of various commodities and services, as well as the price of various production factors, thus we are speaking of prices in the broadest sense. The process of allowing prices (as broadly defined) to be set by the market will be a gradual one, and committing exchange rates to regulation by the market will take the longest time of all. As we transform the price model, the most important things are the transformation of the price formation mechanism and the formation and perfection of the market price system. The need for price reform, for transformation of the price formation mechanism, and for establishment of a market price system clearly demonstrate the importance and necessity of market-oriented reform.

Fourth, to deepen reform means to continue promoting market-oriented reform. As a result of ten years of reform, the market factor has begun to penetrate every aspect of social life. A system of free and selective purchasing and negotiated purchasing and selling prices has been implemented for the great majority of consumer goods; only for a small number of key consumer items is there a system of contract purchasing and rationed supply. The proportion of direct sales by industry has gone from practically zero to roughly 50 percent, and the proportion of free purchasing by large-scale retail enterprises stands at roughly 80 percent. There were a total of 70,000 urban agricultural product markets in 1988 with a total turnover of 100 billion yuan, which is two-fifths of total retail sales of social commodities. The capital goods market is now expanding. Presently, state-owned large- and medium-sized industrial enterprises buy about half of their raw and semi-finished materials in the marketplace at market price, and urban collective industrial enterprises and township enterprises buy almost all of their raw and semi-finished materials at market price. According to statistics from the first half of 1989 on 800 large- and medium-sized enterprises, among the raw and semi-finished materials purchased, 52 percent were received

by allocation at state allocation prices and 48 percent were purchased at market price. Markets for funds, services, real estate, technology, and foreign exchange have gradually been built up. As for methods of price formation for all social physical goods and services, the proportion of state-set prices had fallen to 50 percent by 1988, while state guidance prices and market-regulated prices accounted for the remaining 50 percent. Breaking down these figures further, the proportion of agricultural products sold by peasants at state-set prices fell to 24 percent, 19 percent were sold at state guidance prices, and prices for the remaining 57 percent were regulated by the market. In retail sales of social commodities, 29 percent were sold at state-set prices, 22 percent were sold at state guidance prices, and 49 percent were sold at market-regulated prices. In the area of heavy industrial products, 60 percent were sold at state-set prices, while 40 percent were sold at floating or negotiated prices.

These figures fully demonstrate that China's economic system has entered a period in which a new system coexists with and is replacing the old one. The coexistence of these two systems has introduced some movement into a brittle system and strengthened economic vitality. On the other hand, it has also given rise to much conflict and friction, and many chaotic situations have appeared. This has been demonstrated most clearly by the dual track price system. The dual track price system for industrial capital goods which was implemented in 1984 and 1985 was a clear illustration of how the dual track system works. To a certain extent, the introduction of this plan at that time was inevitable, and it has in fact yielded some results. It has spurred overfulfillment of quotas for certain products which were in short supply, supported the development of township enterprises, and provided impetus for the establishment of an industrial capital goods market. However, its shortcomings have also been quite notable, particularly the large gap between posted prices and market prices, and the fact that this gap has been growing larger. In addition, circulation system reform has not gone very deep, and market rules and regulations were not sound. These things exacerbated chaos in the circulation link. Many powerful cadres and corporations have taken advantage of dual track price differentials by taking goods and materials already allocated by the state plan and selling them elsewhere at market price, becoming fabulously rich in the process. Corruption has spread, social distribution has become more unfair, and the people have grown angry. Therefore, the shortcomings of the dual track system today overshadow the advantages. There is an urgent need to bring the two tracks together by deepening reform. Apart from a small number of goods and services, which should be merged onto a single track of planned prices, the great majority of goods and services should be merged onto a single track of market prices. Only in this way can we create the necessary conditions for the deepening of reform in other areas, including the enterprise, planning, and materials systems. Only in this way can we make it easier to assure the

establishment of a system of macroeconomic control of a planned commodity economy.

In short, if we intend to develop the commodity economy or deepen reform, it will be necessary to push forward with market-oriented reforms and develop market relationships. We must continue to make progress on the basis of the results we have already achieved in expanding the function of the market mechanism.

#### **Planned Guidance and Macroeconomic Control— Special Characteristics of Market Coordination in Socialist Countries**

Market-oriented reforms can inject new vitality into social and economic life which had originally gone brittle or semi-brittle. Bringing the function of the market mechanism into play can advance the development of the socialist commodity economy and market prosperity, and improve resource allocation. According to neoclassicist Western economic analysis, scarce resources are effectively allocated by means of the market mechanism, thereby achieving the Pareto optimum, but this was a pipe dream. The market mechanism is the spontaneous manifestation of the function of the law of value. "This is just like the ancient gods of fate, who flitted about the cosmos using an invisible hand to dole out mankind's fortune and disaster."<sup>3</sup> There are intrinsic limitations and disadvantages to the market system. These limitations and disadvantages have visited repeated economic crises upon capitalist nations and have forced Western economists to acknowledge "the failure of the market" and to search for various remedies to overcome "the failure of the market."

The limitations and disadvantages of the market mechanism are demonstrated in the following ways:

First, with the market mechanism, each economic entity can only obtain ready-made information about supply and demand, prices, etc. in the marketplace, and on this basis make policy decisions about production and commercial activities. Much of this ready-made information is limited in scope and valid for only a short time. Economic entities, seeking to maximize their own interests, have often adopted policy decisions on the basis of this information which have run counter to the long-term interests of society, frequently suffering losses themselves, too. Big fluctuations in recent years in the production of some of China's agricultural products have fully exposed the limitations of the market mechanism in this regard. Ramie and rabbit hair are the most notable examples. The price of ramie jumped from under one yuan per catty to over eight yuan per catty. Peasants rushed to plant with ramie land which would normally have been used to grow grains. Production soared, supply exceeded demand, and prices plummeted to a little over one yuan per catty. Peasants were unable to sell their products and complained loudly of their plight. Similar situations have occurred time and time again in recent years, fully exposing this flaw in the market mechanism. Also, with the market mechanism,

some enterprises which cause environmental pollution seek only the interests of their own units and pay no attention to improving the environment, thereby causing serious social consequences. On the contrary, activities which are capable of improving the environment and restoring ecological balance have seldom generated the income they deserve. The situation is similar with regard to basic infrastructure. This shows that the market mechanism is incapable of resolving mankind's long-term problems which touch upon the interests of society as a whole.

Second, a long process has always been required for the market to translate changing signals into behavioral change. This inhibits work to readjust economic structure, and particularly industrial structure. When there is a serious imbalance between supply and demand for key products with little elasticity of supply or demand, even a large increase or decrease in prices is unlikely to stimulate production or consumption. For example, when steel is in short supply, its price rises, but supply cannot for this reason be quickly improved, because it takes several years from the time an investment is made until products roll out. The idea that "once prices are freed, they rise; once they rise, production increases; once production increases, prices fall" is not without preconditions. It is only applicable to products with high supply elasticity, or products for which substitutes are readily available. Thus, for long-term structural readjustments, the effect of the market mechanism has not generally been as direct or as forceful as that of the planning mechanism. Also linked with this is the fact that the market mechanism often requires a long period of suffering and great sacrifices in order to recover overall equilibrium of supply and demand. It takes a long time for a nation to recover lost equilibrium when it relies on the regulatory effect of the market. The resources wasted by capitalist countries in order to escape economic crises, and the long periods of hardship suffered by the working people in those countries amply illustrate this point. In the early 1960's, China adopted a method of planned regulation which relied primarily on administrative measures in order to recover from the serious crisis which had resulted from the errors of the Great Leap Forward. In only two years, we basically recovered overall equilibrium of supply and demand, and had eliminated inflation. The limitations of the market mechanism are more apparent with respect to structural readjustment and overall equilibrium of supply and demand.

Third, the market mechanism cannot play its role without the existence of free competition between economic entities. The competition mechanism is a component of the market mechanism. However, with the market mechanism, specialization and concentration of the production process can go too far as productive forces are developed and social division of labor deepens. This inevitably gives rise to monopolies and paralysis of the market mechanism. The market mechanism does not do much to prevent or limit monopolies. Other measures must be taken.

Fourth, with the market mechanism, the gap between rich and poor inevitably widens and polarization occurs. This mechanism cannot maintain equitable distribution. The regulatory effect of the market can give rise to income disparities in different ways. They are sometimes caused by the fact that different people, under conditions of equal opportunity, put forth different levels of subjective effort (some work harder than others, some businesses are bigger than others, some have more knowledge and skill than others, etc.). They are also sometimes the result of differences in the objective conditions of production (some enterprises control more funds than others, some have a higher level of technology or more equipment than others, some have more natural resources than others, some enjoy relatively advantageous geographical location, etc.). In a socialist system, though, the income disparities engendered among state-owned enterprises by these different production conditions should be buffered by the state rather than absorbed by enterprises. Apart from this, income disparities between people can also result from differing inheritances, good or bad luck, and even the degree of power one controls. Income disparities occasioned by the latter two situations violate ethical principles of equitable distribution. Taxes, subsidies, social services, disaster relief, and other methods of redistribution are needed in order to provide an impetus toward fairness in income distribution. The market mechanism is useless in these areas.

Finally, the market mechanism can frequently make production and demand coincide at a certain point in time, but the spontaneous process which brings about this kind of equilibrium between supply and demand is accompanied by a great deal of uncertainty. This spontaneity and uncertainty is not necessarily conducive to achievement of the strategic goals of social and economic development, so almost no country with a market economy depends on the market to carry out its regulatory function in a completely unbridled manner. It is always combined with the state's macroeconomic control and administrative intervention. The more any state or society seeks to develop its economy in accordance with long-term strategic goals, the tighter this control and intervention is.

The limitations of the market mechanism described above warn us that we should not place too much faith in it. While we bring the function of the market mechanism into full play, we cannot abandon planned guidance. Macroeconomic control is needed. Western nations with market economies do not now have market economies which are completely free and unbridled. Their economies have various forms of governmental intervention and macroeconomic control. It is all the less advisable for socialist countries to be too absolute in implementing guidance by the market. Guidance by the plan is indispensable, especially in macroeconomic terms. In short, we need both an "invisible hand" and a "visible hand" to control the operations of the socialist commodity economy. Guidance by the plan and macroeconomic

control are the "visible hand," and they are needed in order to guarantee that the socialist commodity economy will operate within the context of the plan. Of course, the guidance of the plan and macroeconomic control cannot go unchecked. They, too, must obey objective economic laws, including the law of value. Marx said, "the law of value for commodities determines how much labor time society can devote to production of every kind of commodity."<sup>4</sup> If we can consciously handle affairs in accordance with the aforementioned law of value and other economic laws in the course of macroeconomic planning and control, the operations of society and the economy will not be subject only to the influence of an "unseen hand" (primarily in the microeconomic sphere); there will also be a "visible hand" exercising control. In this way we will stay on track with planned development.

I feel that planned guidance and macroeconomic control include at least the following three aspects:

First, they must maintain economic stability, including market stability, financial stability, and price stability. China's 40 years of experience with economic reconstruction tells us that it is extremely important to maintain economic stability and develop in a stable manner. Not only is it harmful to economic development if the economy is unstable and fluctuates wildly, it also hinders the state's quest for a long and peaceful rule, and causes great political damage. If we are to maintain economic stability, the most important thing is to maintain stable and sound fiscal and monetary policies. We cannot have fiscal deficits, nor can we have monetary deficits. Economic development (which in China mainly means industrial growth) must be maintained at a proper pace. We must resolutely refuse to resort to deficits and inflation to support a high rate of short-term economic growth. Because China has relaxed planned guidance since the last half of 1984, it has lost macroeconomic control, relatively large fiscal and financial deficits have occurred, there has been excessive distribution of national revenue, the economy has overheated, inflation has grown worse, prices have climbed rapidly, and the people have reacted strongly. Things have gotten to the point where an epidemic of panic buying and bank runs broke out in the summer and fall of 1988. In September 1988, the 3rd Plenary Session of the 13th CPC Central Committee formulated the program of improving economic conditions and rectifying economic order. A policy of retrenchment was adopted and macroeconomic control was strengthened in order to stabilize the economy, weather the crisis, and put the national economy on a solid footing. It must also be noted that maintaining economic stability is not only a necessity if the economy is to remain healthy and develop smoothly, it is a guarantee of smooth progress in structural reform. If the economy is unstable, all types of economic relationships will be strained, and reforms will not be easily deepened in a comprehensive manner. Several large price reform programs have been drawn up in detail in the past few years, but it has been impossible to implement them because of economic overheating and worsening economic conditions, so we have had to postpone



them again and again. Events have shown that without relatively relaxed economic conditions, and unless the economy is stable, it is impossible to push reforms forward in a comprehensive manner, and various "reform maladies" easily arise (such as the so-called "Bermuda Triangle" of prices, subsidies, and taxes).

A second aspect of planned guidance and macroeconomic control is that they must coordinate overall macroeconomic proportions. This is a prerequisite for maintaining economic stability. It is an important necessary condition for enabling the market to guide microeconomic activities in a more healthy manner, preventing it from straying from the path of planned development. It is a guarantee that we will increase macroeconomic benefits and avoid wasting large amounts of resources. It is also a clear demonstration of the superiority of the socialist planned economy over the capitalist market economy. The idea of coordinating overall macroeconomic coordination mainly refers to: a fundamental equilibrium in fiscal policy, credit, materials, and foreign exchange, as well as overall equilibrium between them; equilibrium between overall social supply and demand and major [industrial] structures; coordination between industrial and agricultural development, between development of basic industries and processing industries, and between development of primary, secondary, and tertiary industries. The effort to achieve this involves several aspects: 1) We must implement a macroeconomic policy of coordinated development. We must not promote policies which seek inordinately swift progress in one particular area and harm overall equilibrium. 2) The state must maintain control over a significant amount of materials in order to exert a regulatory influence upon social and economic activities. In particular, it must control and regulate supply and demand relationships on the market by buying and selling materials. 3) With regard to key products for which there is a natural monopoly (crude oil and some non-ferrous metals, for example) and for those which have a large impact upon the welfare of the nation and the people, production can be restricted to state-run, state-owned enterprises. In some cases we can impose compulsory production and sales quotas.

A third aspect of planned guidance and macroeconomic control is that they must formulate a feasible economic development strategy which is in line with actual conditions in China, and they must carry out macroeconomic guidance. The three-step long range economic development strategy which China has formulated belongs to this category. An economic development strategy must be both aggressive and stable. It must be capable of rousing the spirit of people throughout the nation, but it cannot press for quick results or make demands the nation is incapable of meeting. On the basis of the economic development strategy, the state must formulate a corresponding industrial policy which clearly identifies which industries and products should be most vigorously developed, and which industries and products should be restricted to an appropriate degree, or

even eliminated. The state's fiscal, tax, credit, and price policies must facilitate implementation of industrial policy. The "Decision Regarding Some Important Aspects of the Current Industrial Policy," which was formulated by the State Council on 5 March 1989, was very much in keeping with actual conditions in China. It showed the proper way to improve and optimize China's industrial structure. The most important thing we must do in the near future is to organize, implement, and earnestly enforce the industrial policy now in place.

It must be noted that there are differences between the planned guidance and macroeconomic control of the socialist planned commodity economy which we have described above and those of a capitalist nation. Our planned guidance and macroeconomic control can exercise effective planned regulation of the national economy, implement a planned economy, and avoid the cyclical economic crises of capitalism. No matter how much experience the capitalist nations have in economic management, no matter how clever their measures of macroeconomic control, no matter how meticulously their guidance plans are formulated, and no matter how much effort is put into their implementation, a capitalist economy cannot be developed in a planned manner, and it cannot escape the anarchic nature of capitalist production or its cyclical economic crises. The fundamental reason is that capitalism is based on the system of private ownership. Although capitalists do share some common interests, their interests conflict more often, more directly, and more sharply. This determines that bourgeois countries cannot possibly carry out comprehensive and effective regulation. It would be impossible for a capitalist nation to bring the interests of all its people into fundamental harmony, as is the case in socialist countries which are guided primarily by the system of public ownership. It would be impossible for a capitalist nation to truly take as its point of departure the interests of the society and the people as a whole, and implement a system of planned guidance, regulation, and control of the economy, avoiding, all the while, interference by certain capitalist cliques with special interests. On the contrary, we often see in capitalist countries that monopolistic cliques work through their agents in government to formulate and implement various plans and policies beneficial to themselves. They often support their agents in government by donating money in congressional and presidential elections, thereby imposing certain limitations on the government's economic planning, regulations, and control. Because the government's intervention in the economy generally represents the interests of only a limited number of private capitalists, this intervention cannot be rational or scientific. It cannot be in line with the interests of social development, nor can it gain broad-based social support. This inevitably has a serious impact upon the effectiveness of government intervention.

In short, market coordination and market regulation of a planned commodity economy based on a system of public ownership is different from a completely unbridged type of market coordination, and is different from

the market coordination of Western nations. It can effectively exercise planned guidance and macroeconomic control. As long as our economic development strategy is on target, no big mistakes are made in the area of macroeconomic policy, the economy develops in a stable manner, and the national economy is well-proportioned overall, it will not lead to economic liberalization if we push forward with market-oriented reforms, set planned guidance and macroeconomic control on a solid footing, establish the market system, bring the guidance function of the market into play, and combine all this organically with the establishment of a system of macroeconomic control which can assure stable economic development. On the contrary, this type of reform would make the economy stronger than ever, and would enable it to move forward in a stable manner.

#### Footnotes

1. *The Complete Works of Lenin*, Volume 1, p. 79.
2. This thesis is found in *The Market Economy in the Early Stages of Socialism*, edited by the Guangdong Province Symposium on the Market Economy.
3. *The Complete Works of Marx and Engels*, Volume 23, p. 394.
4. *The Complete Works of Marx and Lenin*, Volume 25, p. 716.

#### Survey of Urban Households Conducted

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31 May 90 p 1

[Text] Chinese urban dwellers' income saw a moderate increase in the first quarter of this year, but their spending was still very weak, a recent survey has found.

The survey, conducted among 30,000 urban households across the country, saw per capita monthly income of city residents during the first three months of this year rising to 115.34 yuan (\$24.50), 5.4 percent more than figures for the same period last year.

Adjusted for inflation, the real increase was 2.9 percent.

And monthly per capita spending ran at 109.88 yuan (\$23.40), 2.7 percent less—or 5 percent less if price increases were accounted for—than during the first quarter last year.

Experts at the State Statistics Bureau said that the spending decrease contrasts sharply with last year's figures in which spending increased 29.6 percent during the first quarter.

They said urban residents' spending has kept the market sluggish.

The survey also found that the sluggish market has reduced the income of the individual business 15.8 percent with figures from the first quarter of 1989 when their earning increased by 38.6 percent.

The survey showed urban residents more interested in saving money than spending it. In the first quarter of this year per capita saving increased by 21 percent while per capita withdrawal from the banks decreased 21.5 percent.

Spending has been sluggish from mid 1989 in spite of the two most important festivals, Spring Festival and New Year when people tend to buy lavishly.

#### Recent Developments in Enterprise Mergers

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GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 3, 23 Mar 90 pp 12-13

[Article by Jia Heting (6328 0735 0080) and Li Xiong (2621 7160) of the Economic Management Department of the State Restructuring of the Economic System Commission: "New Developments in Enterprise Mergers"]

[Text] In 1989, under the vigorous promotion of government organs at all levels, enterprise merger maintained the trend of continuous development. Judged from the situation as a whole, the number of enterprise mergers declined as compared to the previous year, but the job was done more conscientiously and the effect of merger was better, also. The main characteristics are as follows:

The government has paid more attention and strengthened guidance for enterprise mergers. After several years of development, the important functions of enterprise mergers in readjusting economic structure, transforming inferior enterprises, and increasing socioeconomic returns have been recognized by increasingly more people. Especially when coordinated with the campaign to improve economic environment and rectify economic order, enterprise mergers play an irreplaceable role which has attracted the attention of local governments at all levels. To promote the development of enterprise mergers, several local governments have adopted many effective measures. First, they have vigorously publicized the meaning and policy of enterprise mergers. Second, they have carried out organizational work. Most localities have designated departments in charge of enterprise mergers, established a working system for the departments concerned to coordinate in this effort, and organized work groups. Third, they have formulated relevant policies and regulations. As of the first half of 1989, 15 provinces, autonomous regions, municipalities, and cities with province-level economic decision-making authority worked out detailed rules and regulations for the enforcement of enterprise mergers. Fourth, they have provided guidance for enterprise mergers according to the industrial policy.

A set of standards and procedures have been gradually established for the work of mergers. Mergers generally have to follow the following steps: First, the departments concerned or the property rights transfer market may act as go-betweens or two parties may talk directly to determine the preliminary targets of a merger. Second,



assisted by the departments concerned and the property rights transfer market, the two sides will carry out investigations and verifications and submit a merger report to be discussed and adopted at workers' congresses before it is submitted to the representatives of owners for approval. Third, an official plan for checking the property and assets of the enterprise to be merged, clearing up creditor's rights and debts, and confirming the form of merger and the qualification of property rights transfer will be submitted to the departments concerned for examination and approval. Finally, the representatives of the owners of the two sides will sign an agreement. After the agreement is signed or notarized by the departments concerned, they will have to go through the procedure to make changes in industrial, commercial, tax, banking, and real estate departments. Establishing standards and procedures for the work of mergers has improved the work quality and success rate of mergers.

The form of merger has been diversified, and the proportion of uncompensated mergers has increased slightly. Since superior enterprises are fairly tight with their funds and it is fairly difficult to carry out compensated mergers, the proportion of uncompensated mergers increased from about 25 percent in the past to about 30 percent in 1989. In addition, mergers through the purchase of shares has appeared. In such mergers, the assets of inferior enterprises are incorporated into and managed by superior enterprises and superior enterprises deliver profits to the representatives of the owners of the merged enterprises according to a predetermined property ratio. Mergers through the assumption of debts still remains the dominant form, accounting for about 40 percent. Mergers through purchase has declined markedly.

The property rights market has made further development and the number of enterprises merged through the market has increased. The property rights trading market, which appeared in the last two years, has played a positive role in promoting enterprise mergers. First of all, the property rights trading market provides information for both sides of a merger and a place for two-way selection. The property rights trading market gathers various kinds of information regarding enterprises which want to merge and to be merged, allows the two sides of a merger to choose among different targets, and enables enterprise mergers to go on according to the principle of openness, equality, and competition. Second, the property rights trading market provides various services and organizational coordination for both sides of mergers. The property rights market is not a simple exchange place. Instead, it is an organizational coordination organ with government organs acting as its go-between and many workers coming from different departments. This nature of the property rights market has provided favorable conditions for improving the work quality and increasing the success rate of mergers. From August 1988 to October 1989 the Zhengzhou Municipal Enterprise Property Rights Trading Market handled the merger of 36 inferior enterprises by 28 superior enterprises, transferred 48.86 million yuan of assets and 1,863

mu of land, and relocated 8,181 workers to new posts. After mergers, enterprises have all increased their economic performance.

Bank functions should be fully utilized to promote enterprises' property rights transfers. The Industrial and Commercial Bank of Sichuan Province has set up an economic file for enterprises' property rights transfers, lined up enterprises which need merging and to be merged, adopted measures to stop issuing new loans to enterprises which are poorly managed and unable to survive, given as much preferential treatment as possible to superior enterprises in regard to credit and interest rate, and created an objective environment where the superior eliminates the inferior. At the same time, it has also stipulated that superior enterprises are allowed a longer period to repay the debts they took over from the enterprises they merged. Thanks to the vigorous coordination of banks, between June 1988 and June 1989, 104 superior enterprises managed to merge 116 inferior enterprises and transfer 380 million yuan of assets. As a result, 70 enterprises eliminated deficits and 46 reduced deficits.

In 1989, enterprise mergers played a positive role in coordinating with the improvement and rectification campaign. First, it accelerated the rational flow of existing assets, mobilized a large amount of idle assets, and optimized the alignment of some productive factors. Second, it gave an impetus to the readjustment of product mix and industrial structure, thus increasing the effective supply.

In 1989 the state implemented the retrenchment policy. As a result, the economy which was overheated in the previous 2 years gradually cooled down and the macroeconomic environment witnessed great changes, bringing up many new problems for enterprise mergers.

—Superior enterprises lack motive power for mergers. On the one hand, restricted by a fund shortage, superior enterprises' ability to expand is limited plus the fact that market demand has declined, development trend is unpredictable, and risks have increased. Because of this, superior enterprises have become cautious in merging activities. On the other hand, some enterprises which are about to close down or which have already closed down completely or partially are anxious to find backers. As a result, a "buyer's market" where few enterprises want to merge but more enterprises want to be merged has appeared.

—Transregional and interdepartmental mergers have become more difficult. Judged from the situation in 1989, it is still very difficult to carry out transregional and interdepartmental enterprise mergers. First, interest relations have become more complex and the difficulty of coordination has increased. Second, planning channels cannot be easily unclogged after merging, and raw materials and energy supply cannot be guaranteed. In addition, some departments in charge of enterprises still have some problems accepting enterprise mergers.

—There is a lack of comprehensive coordination and coordinated policies. Enterprise merger involves over 10 departments including land, real estate, industry and commerce, tax, labor, and banks. It needs complicated procedures and is an important policy issue. So we must do a good job in organizational coordination. At present, many localities do not yet have a definite department in charge of mergers. Departments in charge in some localities are weak in their coordinating ability. Multipurpose departments in some localities do not communicate with one another, so it takes enterprises several months to go through the merging procedures.

Difficulties in enterprise mergers are also caused by the fact that current policies are not coordinated and that there are no definite rules or regulations to go by. This is reflected mainly as follows:

1. When enterprises under different ownership systems are merged, their workers are placed together at mixed posts. But since workers' status and the wage system cannot be changed, they do not get equal pay for equal work, thus adversely affecting their enthusiasm.
2. Merged enterprises often need certain technological transformations before they can be revived to produce returns, but due to the restriction of the division of loans and investment targets, the technological transformations of inferior enterprises often do not fit into the "frame" of superior enterprises.
3. Inferior enterprises often owe a large amount of bank loans or are in debt to other enterprises. After merging, creditors or banks immediately ask superior enterprises to pay back the debts, thus increasing the burdens of superior enterprises.
4. When upgrading enterprises and grading enterprises' investment credit which is used to determine the order of loans to be issued, banks need to look at the tax and profit rate of funds and wages. After merging inferior enterprises, these indexes of superior enterprises often decline within a short period of time, thus adversely affecting the upgrading or bank loans of some enterprises, which is very detrimental to the development of superior enterprises.
5. Service charge standards are too high for the transfer of property rights. Enterprises cannot afford it.

## FINANCE, BANKING

### Call Made for Stronger Tax Laws

90CE0251A Beijing JINGJI CANKAO in Chinese  
13 May 90 p 4

[Article by Wu Zhiqiang (0702 1807 1730): "Tax Laws Must Be Strengthened, and Taxes Must Be Collected Strictly According to Law"]

[Excerpts] As PRC citizens still have a very poor understanding of taxpayment, and tax evasion has become a rather serious phenomenon because our tax collection

work has long emphasized "revenue" at the expense of "control," it is essential that we study the particular social causes of tax evasion to find a way to bring it under permanent control.

### The Social Factors That Cause Tax Evasion

*The Impact of the Historical Roots of Tax Evasion*  
[passage omitted]

### PRC Tax Laws Are Too Lax

Although PRC tax laws were long too lax, merely emphasizing economic penalties against tax evaders and their backers, while containing no relevant measures for applying administrative and legal sanctions against law violations, such as tax evasion, graft, and embezzlement, which are all theoretically attempts to gain the state and the people's wealth by illegal means, the current laws which impose heavier penalties on graft and embezzlement than on tax evasion are encouraging tax evasion. According to the relevant provisions in PRC tax laws and our judicial practice on tax evasion of more than 2,000 yuan, in addition to imposing fines on tax evaders of up to 500 percent of the amount of taxes evaded, tax bureaus must also place their cases on file with procuratorial organs for investigation and prosecution. A certain rock star who evaded 46,800 yuan in taxes was fined only 34,000 yuan, or less than 100 percent, let alone not having the case placed with procuratorial organs for investigation and prosecution. PRC tax laws which are too lax are "ineffective against such stars." Many tax evaders mistakenly think that, "While criminal violations ought to be punished strictly, economic violations should be treated leniently, and more emphasis should be given to collecting the evaded taxes than to prosecuting the evaders." Sanctions that are not strict enough to stop tax evasion, which leaves either conscientious, lawabiding taxpayers resentful or induces them to follow the bad example of evaders, is causing more tax evasion on a larger scale.

### Steps That Should Be Taken To Prevent Tax Evasion

*Tax Laws Must Be Improved, and Taxes Must Be Collected Strictly According to Law*

Better tax laws are necessary before taxes can be collected strictly according to law. Tax laws should have strict and rigorous provisions and tighter and more detailed penalty rules and provisions. The current "Regulations Governing the Collection of Tax Revenue" and the "Penal Code" impose too light penalties on tax evasion. Their relevant legal clauses that are currently in effect, do not contain clear criteria with which to differentiate individual, private, and collective enterprises, make it impossible at times for tax bureaus to determine suitable tax rates because of the difficulty in evaluating the true ownership nature of individual enterprises, and contain many lines of detailed rules and regulations that are too sketchy and unsuited to particular applications. Laws governing the collection of tax revenue must be formulated as quickly as possible, and other relevant

legal clauses must be amended and improved in order to clearly endow tax bureaus with the necessary powers. It must be stipulated that tax bureaus have the authority to take actions, such as notifying banks to deduct from and freeze savings accounts, confiscating and selling discovered property to make up tax payments, and registering taxable economic contracts.

*Basic Regulations To Better Govern the Collection of Tax Revenue Must Be Established, and Collection of Tax Revenue Must Be Strengthened*

As governing the collection of tax revenue is the major means of implementing tax laws and ensuring that the task of collecting taxes is fulfilled, it is compulsory and important, and must be expressed in a set of strict regulations, such as the following ones for individual industrial and commercial enterprises: 1) Particular income declaration and tax payment regulations must be put into effect, in order to change the current passive situation in which special tax collectors track down taxpayers to demand payment, and to help to free up the energy of tax bureau cadres so that they can emphasize supervision and inspection of tax collection. 2) Control must be strengthened over the keeping of account books by individual industrial and commercial enterprises. Not only must private enterprises be forced to keep better account books, but individual industrial and commercial enterprises must also be forced to keep accounts, and those whose accounts do not tally with the facts must be punished strictly according to provisions. Regulations for declaring income both before and after tax collection should be put into effect for individual enterprises which pay taxes at regular intervals according to fixed quotas because they cannot keep accounts, in order to resolve the issue of differences between pre-collection tax payment quotas and actual taxable income. 3) Supervision and control must be rigorously enforced over tax payment agencies, in order to keep them from deducting too little or no tax payments. 4) Control over receipts must be rigorously enforced, regulations governing the printing, issuing, and inspection of receipts must be strengthened, and a special organization to control receipts must be established. 5) Regulations on better publicizing tax collection must be perfected, in order to bring into full play mutual supervision between tax collectors and taxpayers, and among taxpayers. Separate mechanisms to keep tax collection, control, and inspection within bounds should also be set up within tax bureaus, in order to effectively supervise and inspect fulfillment of commitments and responsibilities by both tax collectors and taxpayers.

*The Management Order Must Be Rectified, and the External Environment Must Be Cleared Up*

The transparency of business contacts in the management process should be increased to facilitate supervision. Severe sanctions should also be imposed on departments and individuals which take bribes from individual and private enterprises or make it possible for them to evade taxes and engage in illegal management practices.

**Analysis of Growth in Savings**

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[Article by Li Maiqiu (2621 7796 4428) and Hu Jizhi (5170 4949 0037) of the Wuhan Branch of the People's Bank of China; edited by Zhang Wenmin (1728 0795 2404): "Two Urgent Questions Concerning the Growth of Savings"]

[Text] In the past, people's attention concerning the problems of savings was closely related to the following judgments: First, in most people's eyes saving is the best choice for keeping the remainder of their income after consumption and the amount of savings is also an indicator of wealth. Therefore, savings growth is often closely related to the situation of market stability and national stability. Second, the proportion of savings in the aggregate amount of bank credit funds, which is increasing day by day, has increased from 13.78 percent in 1979 to 43 percent in October 1989. Thus, in the eyes of banks, savings have become the main source for promoting the increase in the amount of credit funds. Therefore, the increase or decrease in the amount of savings is closely related to the capability of banks in regulating [tiao jie 6148 4634] the economy. Third, in view of the overall situation, saving has become a special double-transformation mechanism: In alleviating the contradiction between market demand and supply, savings can delay the realization of purchasing power; while in promoting economic growth, savings can provide huge amounts of funds for production, circulation, and basic construction. Therefore, the increased propensity of the whole nation to save is closely linked to solving special problems arising in the course of reform and to the macroscopic proposition of turning unfavorable factors into favorable ones.

With the increase in the use of credits in the Chinese economy, and the enhancement of people's financial consciousness, saving is not only a way to keep the remainder of income after consumption but is also an active and positive action for preserving asset value and earning interest. The four crises which occurred in 1988, where people withdrew their savings from banks, were caused by inflation; the rapid increase in savings in 1989 resulted from launching the value-preserving savings scheme and the fall in commodity prices; and the series of chain effects thus resulting have illustrated that changes in the amount of savings can change the whole path of the operation of the economy. This illustration reflects that analysis of the questions concerning the growth of savings carries significant practical implications.

**1. Questions concerning the rapid growth of savings and a weak market.**

From January to October 1989, there was a net increase of 110.4 billion yuan in the savings in rural and urban areas throughout the country. The total increase in savings during these 10 months was 393 percent of the total amount of savings achieved during the 30 years before the reform was implemented in 1979. A sharp contrast to this situation is

that since August, there has been negative growth in the aggregate retail amount of commodities in society and such a phenomenon has never occurred during the 10 years of reform. The emergence of the situation where rapid growth in savings coexists with the phenomenon of a weak commodity market has become the focus of people's discussion. In recent years, peoples' analyses and judgments on such a situation have been very unstable: When there was excessive growth in consumption, people criticized the phenomenon of "leading consumption," requested banks to give full play to their special functions, and urged checks and guidance on consumption and for consumptions funds to be turned into production and construction funds. When the savings growth situation was fine, and when the market situation was relatively stable, people alleged that savings had suppressed normal consumption, caused a product overstocking situation, and finally led to market depression and production shrinkage. How do we handle the falling and rising relationship between savings and consumption? It is essential for us to briefly analyze the course where the factors which have induced people to save, have been changed.

Before the reform was launched in 1979, China was under a highly centralized planned management system. At that time, and under the situation where the disposable income of inhabitants was stable, the average person's propensity to

save was, in general, low but stable. In the 27 years from 1952 to 1978, only 1 to 2 percent of disposable monetary income was saved. There have been great changes in this situation since 1979 when economic structural reform was implemented.

In the aspect of the aggregate amount of savings, 1980 was the first year when the annual net increase in the aggregate amount of savings exceeded 10 billion yuan. In 1983, the annual net increase in the aggregate amount of savings exceeded 20 billion yuan; in 1986, it exceeded 60 billion yuan; and in 1989 it has exceeded 100 billion yuan. Basically, there have been significant changes in the annual net increase in the aggregate amount of savings every three years, and there has been geometric growth in the aggregate amount of savings. Moreover, the average annual growth rate of the aggregate amount of savings has been over 100 percent of the annual growth rate of peoples' income. Particularly before 1987, although negative real interest rates had emerged on three occasions, no great fluctuation in the scale of savings resulted and peoples' income saving rate increased from 2.38 percent in 1979 to 10.26 [no year as published]. From the above-mentioned breakthroughs in the increasing aggregate amount of savings, we can generally see the changes in the factors that have led to the growth in savings.

Comparison of Several Main Variables Closely Related to the Growth of Savings (Unit: Percent)

Year	Income Growth Rate	Retail Price Index	Nominal Saving Interest Rate	Real Saving Interest Rate	Net Amount of Interest Savings Rate	Rate of Growth in Savings (100 million yuan)	Income Saving Rate
1979	14.89	2.00	3.90	1.96	70.4	33.43	2.38
1980	15.33	6.00	5.40	-0.60	118.5	42.17	3.47
1981	8.81	2.40	5.40	3.00	124.2	31.09	3.34
1982	10.28	1.90	5.76	3.86	151.7	28.97	3.70
1983	11.03	1.50	5.76	4.26	217.1	32.14	4.77
1984	17.91	2.80	5.76	2.96	322.2	36.10	6.00
1985	22.55	8.80	6.84	-1.96	407.9	33.58	6.20
1986	15.09	6.00	7.20	1.20	615.0	37.90	8.13
1987	7.59	7.30	7.20	-0.10	835.7	37.35	10.26
1988		18.50	8.60	-9.90	726.2	23.69	
1989 Oct		8.70	11.60	2.90	1104.1	29.05	

The growth of savings from 1976 to 1983 was mainly attributed to the increase in peoples' aggregate amount of disposable income. During these five years, disposable income increased by 53.6 percent and this brought a stable increase in savings.

The increase in savings in the period from 1984 to 1986 mainly resulted from the rapid increase in various types of nonregular temporary income on the basis of fixed-income growth. Take the whole-people enterprises as an example. The proportion of fixed income in the total income of staff and workers decreased from 85 percent in 1978 to 56.3 percent in 1986, while the proportion of other types of income in the total income of staff and

workers, such as piecework wages, above-quota wages, bonuses, subsidies, and so on, has reached 43.7 percent.

The growth in savings during the two periods mentioned above is basically a type of consumption saving. Results obtained from sample surveys show that in urban areas, the primary motives for people to save are: To "buy consumption goods"; to "support and bring up daughters and sons"; and for "family members' weddings, funerals, and other unexpected needs." It was found that 22, 31, and 31.9 percent respectively of survey respondents chose the above three motives. This means that about 84 percent of the people who save money have not taken value-preserving or value increase as their primary objective for saving. With

the increase in the aggregate amount of savings, and since 1987, the nature of saving has been transformed from consumption into the profit-making type. Particularly after the launch of the value-preserving savings scheme in the fourth quarter of 1988, the saving interest rate has become an increasingly influential factor in promoting savings growth and people who save money have thus been brought to a new stage where obtaining interest income has become their aim in saving. Although the actual interest rate offered by the value-preserving saving scheme is zero, the quarter subsidy rate plus the interest rate have increased the nominal interest rate of 3-year fixed deposit savings to 25.85 percent. Such "illusions" have had strong effects on people. The launching of the value-preserving savings scheme has resulted in a rapid increase in savings. People have thus gradually begun to change the idea of "saving to buy commodities and to preserve value" to the idea of "saving to preserve value."

It will therefore not conform with the objective reality if the role played by value-preserving savings measures in promoting an increase in savings is ignored in the discussion on the phenomenon where rapid growth of savings coexists with the situation of a weak market. However, it is not objective if we allege that the emergence of a weak market was brought about by the launching of the value-preserving savings scheme. The decision to adopt the value-preserving savings measure itself is not an ideal economic choice. Such a measure has a political and placatory nature and has caused a series of implicit difficulties to the operation and development of the financial system in the next stage. First, it has blocked the channels through which comparisons and exchanges among various types of financial assets can be made. For instance, government bonds, financial bonds, debentures, and so on will only be attractive when they are issued according to value-preserving methods. However, this will bring great operational difficulty in the handling of the circulation and exchange of these financial assets in the future. Second, although it has alleviated a difficult situation, it has postponed the solving of more serious problems for three years. Over the last three years, the policy of improving the economic environment and rectifying the economic order and the policy of economic structural readjustment have been implemented in China. In addition to this, China has been in the peak period of repaying its domestic and foreign debts. Although the state has emphasized increasing the "two proportions," it has been impossible for China to have excessive accumulation and a financial surplus. Under such a situation, it is inevitable that the value-preserving saving scheme will bring great problems to the operation of the economy and to the financial income and expenditure situation. We should think deeply about this. Third, the subsidy rate offered by the value-preserving savings scheme will fluctuate with commodity prices. In organizing savings, banks will almost be put under a completely passive situation. In addition to this, since strict planned control has been implemented on the loan interest rates, which correspond to savings interest rates, the gap between the savings interest rate and the loan interest rate, which are reverse-linked to each other, has been fluctuating in accordance with fluctuations in market

commodity prices. This has thus caused great difficulty to banks when conducting cost accounting and planning their activities. Fourth, the value-preserving savings scheme was launched on the basis of a three-year period and this has artificially enlarged the returns between long-term and short-term savings. This is because savings for a period of over three years only get an amount of subsidy equal to that obtained by short-term deposits; on the other hand, the value of savings deposited in banks for periods of less than three years will not be preserved. In this way, nearly everyone will tend to choose a three-year deposit period and all savings will be withdrawn when the three-year period is over. This will bring inevitable difficulty to the utilization of credit funds. Fifth, the value-preserving scheme has offered a higher nominal interest rate for absorbing idle money in the market. Once commodity prices fall, the amount of value-preserving subsidies will also decrease accordingly. The real interest income of this type of saving will increase with the decrease in commodity prices, while the nominal interest rate will decrease with the decrease in commodity prices. This has created an illusion. Once the value-preserving subsidies disappear automatically, people who save money will get lost under such a situation. In this way, although we have paid the cost, a new series of unstable factors will reemerge.

Nevertheless, we should not stop implementing the value-preserving savings scheme. Viewed from a macroscopic management angle, the stability, continuity, and consistency of a policy or measure will bring better results than those brought by inconsistent and arbitrary short-term periodical changes. In view of the general economic situation, although the savings growth has exceeded expectations, the situation whereby there is an excessive amount of money circulating in the market, which has existed for many years, has not been thoroughly improved. Moreover, the foundation for maintaining a stable market is not solid enough and the gap between the supply and demand of funds, caused by the effects of implementing a contraction policy, will be enlarged.

We hold the opinion that one of the measures for solving the present problem of a weak market is to implement favorable policies in rural areas. This is to achieve the best combination between savings growth and market prosperity because the present weak market problem is in fact related to the market structure. First, let us analyze from the aspect of the structure of the varieties of commodities. The commodities for which demand has substantially decreased are mainly household electrical appliances, such as color television sets, refrigerators, radios and recorders, washing machines, and so on. The demand for other products, such as general merchandise and nonstaple food, in 1988 however has increased on the foundation that there was substantial increase in demand for these commodities. Second, let us analyze from the aspect of the regional market structure. The demand for many commodities in rural areas has become saturated. However, there is substantial demand for these commodities in rural areas. According to our observation of the market commodity trend over

the past several years, rural areas are less ready than urban areas to accept new products and new styles and, in general, new products and new styles will become popular in rural areas after such products and styles have been launched in urban areas for one to three years. Besides, many commodities which encountered sluggish sales in urban areas, have achieved good sales in rural areas. Apart from these, 70 percent of market currency reserves at present are in rural areas and a large amount of currency is in the hands of peasants. Therefore, it is possible for us to solve the problem of having a weak market by opening up, by whatever means, the rural market and the 0.8 billion rural population.

2. The expansion of the scale of savings and the problem of the national economy's capacity to absorb. In recent years, with the progress of the economic structural reform, there have been profound changes in the circulating amount, the circulation direction, and the speed of circulation of funds. These have been outstandingly reflected by the substantial increase in: The amount of extra-budgetary funds; the income of staff, workers, and peasants; and the disposable income of enterprises. These have thus provided favorable preconditions for rapid savings growth. However, it seems that at the same time people are appreciating the high-speed growth in savings, the objective reality of the increased cost of savings has been ignored. In order to clearly explain this problem, we chose to conduct a specific analysis on related information from the Wuhan Commercial Bank from 1986 to the first half of 1989.

Attention has been drawn to the fact that for nearly four years, from 1986 to the first half of 1989, the cost of savings funds was higher than the cost of comprehensive funds. In two of those four years, the cost of savings funds

exceeded the cost of comprehensive funds by over 100 percent. When the cost of savings funds is compared with the rate of returns to total amount of funds, we found that, apart from 1986 when a small profit was achieved, losses have been incurred. In particular, attention should be paid to the fact that since the launch of the value-preserving savings scheme in the first half of 1989, the monthly cost for every 1,000 yuan in savings deposit has exceeded that of last year by 3.8 yuan. In addition to this, the increase in the proportion of the amount of savings deposited under the value-preserving scheme has also increased the total cost. As a result, a loss of 3.96 yuan was incurred. That means, an increase of 1,000 yuan in the amount of savings under the present situation of returns to funds will bring a loss of 47.52 yuan a year.

Due to the high savings interest rate and the reverse linkage between banks' deposit interest rates and the loan interest rates, the proportion of the amount of savings deposits in the total amount of the bank's source of funds has been increased. This has substantially decreased the amount of profits achieved by banks. Moreover, large-scale losses were incurred in rural areas, agricultural banks, credit cooperatives, and other basic-level banks which have small-scale operations and achieve small profit margins. According to the statistical investigation conducted by the Hubei Provisional Peoples' Bank on 62 counties and cities and 222 basic-level banks throughout the province, a loss of 40.1 percent was incurred in July 1989. This loss exceeded that incurred in 1988 by some 300 percent. Moreover, in July 1989, a profit of 56.19 million yuan achieved by agricultural banks from January 1988 to July 1989 was turned into a loss of 10.21 million yuan and the losses incurred by construction banks increased from 0.16 million yuan to 37.50 million yuan.

Comparison of Monthly Cost of Saving, Saving Funds, and Returns to the Cost of Funds

Year	(Units: Yuan, percent)							
	Saving Funds			Total Cost of Comprehensive Funds	Rate of Return to Total Amount of Funds	Cost Comparison (3)-(4)	Situation of Profits Achieved by Total Amount of Funds (5)-(4)	Situation of Profits Achieved by Saving Funds (5)-(3)
	Average Interest	Average Expenses	Total Cost					
1986	6.15	0.66	6.71	3.28	7.01	3.43	3.73	0.30
1987	6.28	0.61	6.89	3.50	6.63	3.39	3.13	-0.26
1988	6.80	0.67	7.48	3.81	6.63	3.67	2.82	-0.85
1989 Jun	10.69	0.59	11.28	5.40	7.32	5.88	1.92	-3.96

Notes: 1. The total cost of savings funds is the amount of real disposable savings obtained after turning over to the peoples' bank an amount of savings reserve. Such cost includes: Savings interest, handling charges, contracting fees, wages, bonus, and other fees. This does not include the additional saving network fee.

2. Comprehensive funds refer to four disposable items: Checking account [duigong 1417 0361], savings deposits, credit funds, and internal funds.

3. The rate of return to total amount of funds refers to the ratio between the returns to the total amount of loans and the total amount of disposable funds.

Viewed from the overall situation of the macroeconomy, it is too a narrow method of comparison to simply compare the cost of savings with the cost of comprehensive funds or if the cost of saving funds is compared with the rate of returns to the total amount of funds of banks. This type of comparison explains the influences of the cost of savings on the operation of banks but cannot explain the macroscopic effects caused by increases in the cost of savings. Therefore, it is necessary to compare the increases in the cost of savings and how banks use the savings funds with the related comprehensive national economic indicators. First, in the course of economic growth, dependence on credits and funds provided by banks to promote economic growth has increased. From 1979 to 1981, the average annual GNP growth was 6.7 percent while the average annual growth of bank credits was 14.3 percent. From 1981 to 1983, the average annual GNP growth was 6.5 percent while the average annual growth of bank credits was 14.6 percent. From 1984 to 1988, the average annual GNP growth was 11.5 percent while the average annual growth in bank credits was 24 percent. In the increased amount of bank credits, the proportion of savings in the total amount of the sources of bank credits has increased from 13.78 percent in 1979 to 36 percent in 1988. This illustrates that savings are the main force in promoting economic growth. Second, at the same time as the cost of savings has been increasing annually, the profit and tax rate for every 100 yuan of industrial enterprises' funds has fluctuated around 24 percent and a situation whereby the gap between the cost of savings and the profit and tax of funds enlarges has emerged. Third, the amount of dead bank credits has increased annually. In calculating according to the proportion of the amount of dead credit in the total amount of credit, we found that for every 100 yuan of saving funds used by an organization in supporting economic growth, 15 yuan became dead credit. In the course of credit operation, the situation regarding dead funds is in fact worse than this. According to the statistical survey conducted by the Hubei Provincial People's Bank in 127 basic credit units throughout the province, the proportion of dead credit funds is as high as 26 percent. The Hanyang Branch Office of the Wuhan Industrial and Commercial Bank checked on the assets of 40 industrial and commercial enterprises, which have credit relations. This showed that in the total amount of circulation funds processed by these units at the end of 1989, the amount of funds used in an unreasonable way equalled 44.99 percent of the total amount of loans issued by banks.

According to the above analysis, we consider that factors constraining the growth of aggregate savings and factors leading to increases in the cost of savings are not only losses in the operating profits of banks. The more influential factors are the capacity of the national economy to absorb savings growth and the increased cost of savings. Viewed from a macroscopic economic management angle, in the period of rapid economic growth, the increase in the rate of investment will not necessarily lead to a corresponding growth in the GNP. Fundamentally speaking, expansion of the savings scale will bring

significant effects only when the marginal cost of savings is less than the marginal benefits obtained from using savings as additional investment. However, in considering the course of the changes in the conductivity mechanism resulting from macroeconomic and financial decisions, when the returns to financial investment is higher or more stable than the returns to production activities, and circulation and management of products, it is natural that funds will directly flow into financial departments. At this time, the state will lose its role of being the turbine in funds circulation in society and will then become an obstacle to funds circulation. In the Shanghai interbank loans market in the 1930's in old China, the daily interest rate was as high as 70 to 80 percent for a period of time. That means for a loan of 1,000 yuan the daily interest was 70 to 80 yuan. At that time, large amounts of funds were moving in the books of various banks, while industrial and commercial enterprises did not have enough funds to operate their businesses. This exactly reflects the problem. The substantial growth of the interest-earning class in some economically developed Western countries after the war was caused by the fact that the practice of earning interest can bring income in a more stable way than the business of production. Over recent years, the development of the individual household class in China has also reflected this trend. At the beginning stage, because the returns to the practice of selling and buying products were higher than those in undertaking financial investment, a situation where people borrow and lend money to buy and sell products and raise funds for trading products has emerged. At the time when the interest rate for lending and borrowing could no longer be calculated on an average level, the returns to lending and borrowing money were calculated on the basis of the amount of profit obtained from each transaction. After that, when returns to undertaking buying and selling products decreased, the phenomenon where shops and stores were leased to other people has emerged. Since launching the value-preserving savings scheme and implementing the policy of improving the economic environment and rectifying economic order in the fourth quarter of 1988, the operating scale of many individual households was reduced in 1989 and large amounts of funds has been used to participate in the value-preserving savings scheme and to buy value-preserving bonds and other financial assets.

This type of transformation has not been reflected in state-owned enterprises or collective enterprises because of structural and policy factors. Bank loans are issued to enterprises at a rate lower than the savings deposit interest rate. Therefore, enterprises cannot be fully aware of the negative effects of interest on profits. On the other hand, the phenomenon whereby enterprises are only responsible for profits and not losses after they have participated in the contracted responsibility system still commonly exists. Moreover, loan interest has been taken as part of the cost of enterprises. Therefore, enterprises still have great demand for credit funds. It can be expected that with the comprehensive implementation



of the policy of improving the economic environment and rectifying the economic order, and with the adoption of the measures for strengthening the enterprise constraining mechanism, such as after-tax contracting, repaying loans by after-tax profit, and so on, the problem concerning the capability of the entire national economy to absorb savings will be exposed.

Therefore, in facing the situation where the savings scale has been enlarged daily, the issue of increasing the efficiency in using credit funds should be studied and regarded as critical in issue in relation to the smooth operation of banks and the normal operation of the national economy. Moreover, the phenomenon whereby emphasis is placed on issuing credit while ignoring management should be thoroughly improved. Therefore, focus should be placed on the following tasks which should be properly grasped. First, the practice of asset and liability management should be comprehensively adopted by all banks and current practices whereby deposits are organized in accordance with the scale fixed by upper levels and sources of funds are determined by the demand for funds, should be changed. Moreover, the practices whereby the amounts of loans and credits to be issued by banks is determined by the amount of bank deposits and whereby the time period and structure of loans are determined by the length and structure of deposits, should be strictly adopted. Second, the common phenomenon which has emerged in practical work, whereby short-term loans are used to finance long-term projects, should be improved as soon as possible. Besides, credit departments should include funds which have been absorbed by enterprises and regarded as the minimum amount of funds required for production and circulation, into the realm of long-term credit evaluation. Third, enterprises should be urged to establish, in a down-to-earth manner, a system under which they will have their own supplementary circulating funds. Moreover, the capability of enterprises to accumulate funds and develop themselves should be enhanced. Fourth, readjustment of the credit structure should be enhanced. The present reserve funds in the hands of third and fourth category enterprises should be cut in accordance with the requirement that enterprises should be divided into different categories and loans should be divided into different grades. This is to achieve the result that their funds will flow into first and second category enterprises. Fifth, enterprises should be helped in a positive way to enhance their management, improve their operations, and to improve their quality. This is to enable current funds to achieve a higher efficiency.

## MINERAL RESOURCES

### National Conference on Minerals Management Ends

SK0207043390 Jinan Shandong Provincial Service in Mandarin 2200 GMT 30 Jun 90

[Text] The national mineral resources management work conference ended in Zaozhuang on 30 June. Attending the conference were more than 190 persons from the minerals management departments of 30 provinces, cities, and autonomous regions.

It was learned from the national mineral resources management conference that our province's mineral resources management work has been fairly good. At present, the mineral resources management organs throughout the province have taken an initial form and basically improved the management system. The self-management networks have been formed in the province and in various prefectures, counties and townships. The 104 counties, districts, and cities that need to build special organs have their own government, functional mineral resources management organs, with 783 full-time mineral resources management personnel working, 30 percent of whom were technical personnel. The Mining Resources Law has found its way ever deeper in the hearts of the people, and the building of the legal system is being improved every day. The situation of arbitrary extraction has been effectively checked. According to statistics, the province as a whole now has 10,769 mining enterprises of all sorts, and the rate of licensed mining enterprises is 98 percent. The mining registration work has been comprehensively accomplished.

## INDUSTRY

### Gross Industrial Output Between Jan, Jun 1990

HK1007102190 Beijing CEI Database in English 10 Jul 90

[Text] Beijing (CEI)—Following is list showing China's total industrial output value between January and June, 1990, released by the China State Statistical Bureau.

	(in 100 million yuan)		
	1-6/90	1-6/89	
Total, including:	6,536.9	6,396.2	2.2
Export products	728.1		
Light industry	3,308.1	3,236.0	2.2
Heavy industry	3,228.8	3,160.2	2.2
State	4,012.0	3,992.0	0.5
Collective	2,158.6	2,142.0	0.8
Others	366.3	262.2	39.7

Note: (industrial output value is measured in 1980's constant yuan)



### Gross Industrial Output in June

HK1007101790 Beijing CEI Database in English  
10 Jul 90

[Text] Beijing (CEI)—Following is list of China's total industrial output value in June 1990, released by the China State Statistical Bureau.

	(in 100 million yuan)		
	6/90	6/89	pc
Total, including:	1,258.6	1,188.9	5.9
Export products	148.6		
Light industry	625.7	586.0	6.8
Heavy industry	632.9	602.9	5.0
State	739.0	719.2	2.7
Collective	444.3	420.9	5.6
Others	75.3	48.8	54.3

Note: (industrial output value is measured in 1980's constant yuan)

### Normal Pace Projected for National Industrial Output

90P30059A Beijing JINGJI XIAOXI in Chinese  
7 Jun 90 p 1

[Summary] The vice minister of the State Planning Commission (SPC) and concurrent chairman of the State Council's Production Planning Committee, Ye Qing, said recently that China's industrial production has been rebounding gradually after six months of slow growth and instability, will come out of the slump in the second quarter, and is expected to return to normal during the latter half of 1990.

Ye predicted that in spite of existing problems such as tight funds and sluggish markets, China's gross value of industrial output is expected to increase six percent in the second half of the year. He gave the following three favorable conditions as his reasons:

- Production of energy and raw materials and stockpiling are better this year, maintaining an upward posture. Coal output in 1989 broke the record of 1 billion tons and the current nationwide coal reserve by all enterprises has doubled 1989's. Electricity production has been increasing steadily above eight percent, virtually guaranteeing the stability of industrial production.
- The state, banks, and enterprises are still actively resolving the "triangular debt" problem. The total debt of 100 billion yuan is expected to be cleared up by the end of July and the funding situation will take a favorable turn in the second half of the year. In the meantime, the state already released funds of 25 billion yuan in February and March in support of key sector production and of the procurement of people's necessities of life and commodities for export.

—The measures adopted by the government to readjust product mix, to raise the level of economic return, and to maintain a proper pace of industrial production are playing a very effective role.

### Secondary Light Industrial Production Rebounds

90P30056A Guangzhou NANFANG RIBAO in Chinese  
3 Jun 90 p 1

[Summary] Guangdong's secondary light industrial production, lashed by the sluggish market, has risen again this year, a result of relying on foreign exchange and the development of foreign markets. For the first quarter of 1990, the total output value of foreign trade has increased 18.2 percent, as compared with the same period of 1989. This figure holds 38.8 percent of the total secondary light industrial output value, reaching a record high.

Compared with the same period in 1989, Guangdong's value of secondary light industrial export goods increased 10.8 percent this year; the value of the complete delivery of export commodities by the joint-venture enterprises increased 78.5 percent; and processing fees from the three forms of import processing and one form of compensation trade has increased 11 percent.

Since the beginning of the year, every enterprise in the province's secondary light industry has made a breakthrough in restoring export-oriented economic development and production, exploiting every way possible to expand the market for export. The secondary light industrial enterprise system in Guangzhou City has made excellent efforts this year in both the individually run import-export and joint-venture enterprises. The value of commodities delivered by the city's joint-venture enterprises for the first quarter increased 179.5 percent as compared with the same period in 1989.

### Henan Industrial Production Improves

90P30058A Zhengzhou HENAN RIBAO in Chinese  
7 Jun 90 p 1

[Summary] In May of this year, Henan Province finally came out of the economic slump that began in the third quarter of 1989.

According to the Henan Statistical Bureau's figure announced on 5 June, Henan's gross value of industrial output (GVIO) in May of this year was 6.562 billion yuan, an increase of two percent as compared with the same month in 1989 and a historical record. Of the total increase in gross value, light industry gained 1.7 percent and heavy industry 7.8 percent.

The May production figure indicates that Henan's industrial production is gradually coming out of the bottom. But, because of the heavy debt accumulated in the previous four months, Henan's cumulative GVIO was

only 28.77 billion yuan from January to May, still a decline of 0.5 percent as compared with the same period in 1989.

### Industrial Production Slows in Liaoning

90P30055A Beijing RENMIN RIBAO in Chinese  
10 May 90 p 2

[Unattributed article: "New Problems, New Decisions—Recounting of Liaoning's Perfect Handling of Production Stoppage and Semi-Stoppage of Enterprises"]

[Summary] As the result of a sluggish market, tight funds, and increased decline in production, some enterprises in the 14 cities of Liaoning Province appeared to have slumped into a production stoppage or semi-stoppage.

Facing this new problem, the Liaoning provincial government and CPC Committee swiftly made new decisions to restore enterprise production. The Liaoning Federation of Trade Unions had at three different times called on more than a hundred people to help out enterprises, drawn on the financial resources of more than 2,800 mutual aid savings associations belonging to staff and workers to set up new enterprises, offered aid to the province's more than 50,000 financially difficult households to engage in breeding, planting, and other self-help programs, and arranged for 8,000 employed or waiting to be employed to transfer to other enterprises.

Various commercial departments in the province offered priority procurement to those enterprises experiencing production stoppage or semi-stoppage. Other concerned departments gave favorable treatment in allocating electricity, fuel, and other raw materials to enterprises which have markets for their products and whose recovery looks promising.

Provincewide economic departments of all levels and the 14 cities have actively made the following readjustments in their economic structures: 1) Granting favorable treatment in production conditions and policy for products that can compete and have markets; 2) Assisting enterprises to strengthen their management of production operations, promote technical advancement, develop new products, and increase product compatibility; and 3) Organically integrating the readjusted product mix and the enterprises' organizational structure by using the various forms, across the board, of combining, merging, contracting, and leasing so as to close the gap between the enterprises that lose money and have production stoppage or semi-stoppage problems and the profitable enterprises, thereby promoting the rationalization of an enterprise's organizational structure.

### Shanghai Industrial Production Rising Steadily

OW1207100190 Beijing XINHUA Domestic Service  
in Chinese 0845 GMT 5 Jul 90

[Text] Shanghai, 5 Jul (XINHUA)—Since the beginning of this year, Shanghai industrial departments have

increased their output steadily by implementing the policies of improving the economic environment, straightening out the economic order, and deepening the reforms and vigorously developing an export-oriented economy.

According to statistics, Shanghai municipality's gross industrial output value in the first six months of the year was 55.89 billion yuan, an increase of 0.8 percent over the same period in 1989. This represented a 0.3 percent increase for light industry and a 1.3 percent increase for heavy industry. Three types of partially or wholly foreign-owned enterprises developed very rapidly, recording a 66.2 percent increase in their industrial output value in the first six months of this year as compared to the corresponding period last year.

Since the beginning of this year, Shanghai industrial production has risen gradually again. There was a negative growth in January, but a 1.1 percent increase in such production in April. Monthly output value for both May and June was over 10 billion yuan. Of all industrial enterprises, Shanghai industries under the central authorities and some group enterprises increased their production faster. For example, in the first half of the year, the Baoshan Iron and Steel Complex recorded a 27.2 percent increase, while the increase for both shipbuilding companies and airline companies was 35.2 percent.

In the course of improving the economic environment and straightening out the economic order, the effective supply in Shanghai has increased as a result of the systematic readjustment of the mix of industrial products. In the first half of the year, the growth rates were over 10 percent for raw and semifinished materials, such as iron ore, steel, rolled steel, 10 nonferrous metals, and ethylene. Chemical fertilizers and pesticides and products in support of agriculture increased 17 percent and 27 percent, respectively, over the same period last year. The increases in saleable goods for everyday use, such as electric bulbs, beer, electric fans, and garments were over 10 percent.

The export of Shanghai industrial products has expanded continuously through the coordination of industrial and foreign trade departments. According to the statistics compiled at the end of May, the increase for the export of light industrial products was 13.2 percent over the same period last year, while the export of heavy industrial products rose by 44.3 percent. Of these products, the export of machinery and electrical products with higher added values increased faster.

Though Shanghai's industrial production has indicated an upward trend, it is still restricted considerably by problems related to markets, funds, and raw and semifinished materials. Shanghai industrial departments are carrying out the "double increase and double economy" campaign, deepening reforms in an all-round way, and strengthening basic-level management so as to ensure a sustained rise in industrial production during the next six months.

## CONSTRUCTION

### Production Debt Repayment Problems Outlined

90P30061A Jinan DAZHONG RIBAO in Chinese  
7 Jun 90 p 1

[Summary] The problem of capital construction units being in arrears with construction enterprises is rather serious at present. The considerable debt owed enterprises not only cuts down more than 50 percent of the enterprises' circulating funds, affecting the banks' and the key capital construction projects' capital circulation, but also continuously increases the enterprises' debt, causing operational difficulties.

The construction enterprises above the county level in the province have recovered debt payments of over 200 million yuan, signed debt repayment contracts of near 100 million, and still remain 300 million yuan in debt.

### Jiangxi Maps New Strategy for Housing Reform

90P30054A Nanchang JIANGXI RIBAO in Chinese  
29 May 90 p 1

[Summary] Jiangxi Province surveyed its housing reform situation, discussed the economic, political, and social impact brought on by its housing problems, and outlined new strategies for the coming year at Jiangxi's provincial housing reform work conference concluded on 27 May.

Governor Wu Guanzheng [0702 1351 1973] pointed out the insurmountable housing problems facing the province. The housing area in the province is an average of 6.2 square meters per person. There are 210,000 "difficult residence households" among all the cities and townships, and more than 60,000 of these households have an average per person living space of less than two square meters.

It was resolutely determined at the conference that all localities must expand their housing reform work by popularizing the reform experiences in the two pilot cities of the province, Qianshan and Yingtan. The five cities and counties that have already fleshed out the reform programs, Dongxiang, Fongxin, Chingyi, Ruichang, and Yongfong, must speed up the pace. Seven other cities and counties, Zhangshu, Fongcheng, Gaoan, Jingxian, Yongxiu, Dean, and Dexing, must strive to set up reform programs and encourage their large and medium-sized enterprises to undergo housing reform. All cities and townships of the province must carry out three single item reform programs: standardization of uniform rent, criteria set for rent increases, and all new houses put under the new system.

## FOREIGN TRADE, INVESTMENT

### Analysis of Current, Future Foreign Investment

90CE0155A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 3, 31 Mar 90 pp 2-8, 41

[Article by He Ying (6320 3841): "Ramblings on Chinese Use of Foreign Investment"]

[Text] Using foreign investment can spur a country's economic development. From medieval Holland, 18th-century England, and 19th-century United States, to 20th-century West Germany, Japan, West European capitalist countries, and most recently Asia's "Four Small Dragons," a country's economic development has benefited from foreign investment. However, improper use also can wreak havoc on a country's economy. The debt crisis in countries like Brazil and Mexico is proof [of this]. China's initial steps at using foreign investment began rather late. In the past ten years, we have had some success in using foreign investment, but there are still quite a few inherent problems. This article presents some of the author's viewpoints by analyzing China's current foreign exchange use and suggesting future uses of foreign investment.

#### I. The Structure of China's Foreign Investment

Generally speaking, the structure of China's foreign investment use can be summarized by the following characteristics:

1. In overall foreign investment utilization, the proportion of international loans should be greater than the proportion of direct foreign investment, and the proportion of direct foreign investment should also be greater than the proportion of commodity credit. Judging from the rate of development, the growth rate of international loans far exceeds the growth rates of direct foreign investment and commodity credit. The figures below verify this. From 1979 through 1986 international loans on average made up 71.58 percent of total foreign investment used, while direct foreign investment and commodity credit together made up only 28.42 percent. From 1982 through 1986 international loans increased at an average rate of 43.88 percent, while direct foreign investment and commodity credit together [grew at an average rate of] 38.06 percent.

2. Among international loans, commercial loans made up a greater percentage than official concessionary loans. From 1979 through 1985, commercial loans on average accounted for 66.7 percent of China's medium- and long-term loans. Short-term loans were the "heavy-weights" of international loans. From 1979 through 1986 short-term commercial loans on average accounted for 46.78 percent of total international loans. The debt maturity of medium- and long-term loans is relatively

concentrated. The vast majority of medium- and long-term debts will mature from 1990 through 1992. As far as the currency structure of these loans is concerned, from 1982 through 1985 it was characterized by 60 percent U.S. dollars, 30 percent Japanese yen, and 10 percent other currencies.

3. Among direct foreign investment, the overwhelming preponderance were Sino-foreign joint ventures, contractual joint-ventures, and cooperative developments, and a minority were wholly foreign-owned enterprises. At the end of 1987, Sino-foreign joint ventures, contractual joint-ventures, cooperative developments, and wholly foreign-owned enterprises accounted for 28.6 percent, 52 percent, 15 percent, and 4.4 percent respectively of direct foreign investment.

My opinion concerning the foreign investment structure described above is:

First, the ratio between international loans, direct foreign investment, and commodity credit is basically rather reasonable and conforms rather well with the present stage of China's national conditions.

It is generally recognized theoretically that the advantages of direct foreign investment are that it allows the introduction of construction funds, advanced technology, and management experience, the use of foreign businesses' original marketing channels and information sources, and also gives direct entry into international markets and lessens investment risk. However, to attract direct investment we must have a rather good investment environment. Also, China's current investment environment still has a few difficulties with regard to attracting direct foreign investment: 1. The infrastructure is rather lacking. 2. China's markets are not sufficiently open. 3. Resolving the foreign exchange balance problem within a short time is difficult. 4. It is estimated that raw and processed materials and equipment will have to be supplied from overseas for a rather long period. 5. Although we already have investment legislation, the laws are often not complied with, the bureaucratic style is severe, and administrative efficiency is not high. 6. The workforce is rather lacking in quality. Resolving the above "six difficulties" in a short period will be difficult, therefore in the near term the scale of direct foreign investment utilization cannot be too large. The most important thing is to still raise funds through foreign loans. But after a period of effort, we can look forward to alleviating the "six difficulties," and increasing the proportion of direct foreign investment in the total foreign investment structure. Judging from the growth rates of the two, the growth rate of international loans is presently too high. If development continues at this rate, it could have a detrimental effect on China's economic production.

Commodity credit has the advantages of rapidly earning [foreign] exchange and having a low demand for technology, low risk, small scale, few categories, small investment, and using a lot of people. This suits China, which

is in the initial stage of utilizing foreign investment. But this method is not very effective in shaping a country's technological advancement and production abilities, and should not be weighted too heavily.

Generally, commodity credit is part of the low-level methods of foreign investment utilization, direct investment is part of the mid-level methods, and international loans are part of the high-level methods. Specific forms of foreign investment utilization should change somewhat along with the development of the economic situation. I believe that for the near future China's foreign investment utilization model may give priority to international loans supplemented by direct investment, and followed by commodity credit. The medium-term model gives priority to direct investment supplemented by international loans, and followed by commodity credit. The long-term model [can] be mainstreaming international loans.

Second, the structure exhibited by international loans themselves is not very rational. Commercial loans occupy too great a proportion of medium- and long-term loans (66.7 percent). This proportion is higher than the average of 52 percent among debtor countries. Especially serious is that the maturity on medium- and long-term loans is relatively concentrated. It is estimated that from 1990 through 1992 China will have a peak period of debt payment. The interest rates on commercial loans are high, so using them excessively could cause repayment problems. The relative concentration of debt maturity also increases this repayment difficulty. Short-term commercial loans make up 46.78 percent of international loans, far exceeding the general international standard of 25 percent. An excessive proportion of short-term loans could very easily constitute a debt risk. The currency structure of foreign investments appears to be reasonable, but if we look at it in combination with the situation of China's foreign exchange earned from exports, this currency structure certainly is not ideal. Take the Japanese yen for example: China's Japanese yen exchange earned from exports accounts for about 10 percent of total export foreign-exchange earnings, and medium- and long-term Japanese yen loans account for 30 percent [of international loans]. In view of the international loan structure described above, the author believes that in the near term we still should do our best to obtain concessionary loans from bilateral or multilateral sources. Such loans have the advantage of being long-term with a low interest rate, and are an important way of promoting the rapid development of China's economy. Government loans often can be seriously colored by politics. Many rather favorable conditions often can be offset by serious political coloring. Therefore, we should be somewhat selective about using [them]. The focus of concessionary loans should still be on multilateral concessionary loans from international banking institutions.

Foreign assistance for concessionary loans often can be divided into two categories: "plan assistance" and "project assistance." The fact that plan assistance has a

wider range of selective freedom and conforms better to the country's needs suggests that China should make greater use of "plan assistance."

Proceeding from our wishful thinking, doubtless we should do our utmost to obtain more bilateral concessionary loans from government organizations and multilateral concessionary loans from international banking institutions. But wishful thinking certainly cannot substitute for objective reality. We are faced with the fact that concessionary assistance is limited and conditional. Any such assistance acquired by a developing country must gradually decrease as the level of its economic development rises.

It is in just such a situation that we are "forced" into the international monetary market, where there is the greatest source of funds and where the supply of our present funds comes from. It will become China's last resort for seeking a supply of funds in the future, after we have graduated from "developmental assistance" loans. In order to be supplied with present funding supplements as well as future funds, we should enter the international monetary market at the right time and to the right degree.

The international monetary market certainly is not entered at will; certain conditions must be met. A country's ability to enter the market is determined by both external and internal conditions. The external conditions can be summarized as the balance of international revenues and expenditures, the efficiency of actual investment utilization, and the operational mechanism of international finances. As for the numerous internal and external conditions, [we should] use those that should be used, avoid those that should be avoided, and create those that should be created. Generally speaking, [we should do] everything to enter the market.

Entering the market is just the premise; the key is how to use the market proficiently. Skillfully raising investments appears to help solve this problem. See my article "On Soliciting, Using, and Repaying Foreign Investments" (GUOJI MAOYI WENTI No 3, 1989) regarding skillfully raising investments.

Short-term loans make up too great a proportion of China's foreign debt balance. This is a danger signal and should be strictly controlled from here on. Internationally the safety line for short-term debts is set at 25 percent of the foreign debt balance; China can hold it at about 20 percent.

Since international loans will ultimately become an important way for China to use foreign investment, it is certainly necessary to analyze the internal structure of international loans. I believe that in the near-term international loans should primarily be bilateral and multilateral concessionary assistance, supplemented by commercial loans; in the mid-term they should primarily be

commercial loans, supplemented by bilateral and multilateral concessionary assistance; and in the long-term international loans should be transformed into commercial loans.

Once again, with regard to direct foreign investment, the direction of development, in which Sino-foreign joint-ventures and contractual joint-ventures are more numerous and have a greater share than wholly foreign-owned enterprises, is correct. This basic pattern is also reasonable. The problem comes from the present structure of our direct foreign investments. The proportion of wholly foreign-owned [enterprises] appears to be too small. Moreover, these enterprises are not large in scope, nor do they have much high technology. Thus, they have little effect on spurring overall industry. Wholly foreign-owned [enterprises] have become a weak link in China's use of direct foreign investment.

Wholly foreign-owned enterprises have not developed quickly, which is due to problems with understanding and even more so due to policy reasons. The problem with understanding springs from peoples' recollections of the period when the country forfeited its sovereign rights under humiliating terms. The policy reasons spring from peoples' inflexibility and rigidity in formulating and implementing policy.

To be sure, wholly foreign-owned enterprises have their negative side, but their positive factors far outnumber their negative factors. The key is how we overcome the negative factors and bring the positive factors into play.

The motive for foreign capitalists' investment is to seek maximization of profits. This situation can easily create an irrational investment structure. But by formulating a series of stipulations we can guide wholly foreign-owned enterprises to invest in [areas which are] weak links that urgently need strengthening and in industries that are "bottle necks" in economic development. We should also limit investments by wholly foreign-owned enterprises in sectors that will harm the national economy. This will be advantageous to the rational development of our industry and also will not lead to our economic lifeline falling into foreign hands.

In recent years, we have had quite a few stipulations for wholly foreign-owned enterprises and numerous preferential policies, but when they were specifically implemented they have not been sufficiently flexible. Various localities clamber to compete with one another in formulating preferential policies, with the result that preferential policies become more numerous. The overabundance of preferential policies does not express policy preferences. Therefore, I propose that when we formulate preferential policy, we should seek "essence," not "excess." The intensity of preferential policies should be ample, and include regional and especially industrial preferential policies.

Tax evasion by wholly foreign-owned enterprises is serious. This necessitates training qualified tax collection and auditing talent and establishing sound organizations to manage wholly foreign-owned enterprises as quickly as possible.

The problem of opening the market is the greatest obstacle to attracting wholly foreign-owned enterprises. I myself believe that we have no reason to put excessively strict restrictions on domestic sales of wholly foreign-owned enterprises, especially for those products that we ourselves have no capacity to produce and have an urgent need to import. Since we have to spend that much foreign exchange each year to import a number of products, why can we not exert a little effort to draw in wholly foreign-owned enterprises that produce such products and broaden the share of domestic sales of these products? These actions which are good for both foreign business and ourselves should be adopted as early as possible.

Wholly foreign-owned enterprises not only should exist, but they should be further developed. This is not only by reason of our current excessively small proportion of wholly foreign-owned enterprises, [but] more importantly because the economic environment we presently face requires that we do this.

Although direct investment is a manner of using foreign investment, using this type of foreign investment requires that we allocate a certain amount of renminbi funds. Wholly foreign-owned enterprise funds are completely provided by the foreign business, and also the small amount of operating funds required is [needed] after the enterprise enters production. China's funds are of course short, and the austere economic environment makes this shortage of funds more severe; opportunities for new and increased investments and development of foreign joint-ventures have correspondingly decreased. Because attracting wholly foreign-owned enterprises is actually a business [needing] no capital, we should actively increase its use.

## II. The Direction of China's Foreign Investments

According to general international practice, a country, especially a developing country in the initial stage of economic construction, should key its investments on the infrastructure sector and the production development sector. China's direction of foreign investment basically conforms to this principle. Up to now, energy and transportation have accounted for 61 percent of the construction projects for which China has signed foreign loans; raw and processed materials and other industries have accounted for 22 percent; agriculture has made up 5 percent; and social development projects such as education, health, and urban construction have made up 6 percent. Among direct foreign investment [projects] through the end of 1985, production projects made up 68.6 percent of the total number of projects, but in the

scale of investment they are slightly lower than nonproduction projects, making up 48 percent. Among production projects, 93 percent of funds was invested in industry, while 91 percent of nonproduction project funds was invested in commerce, tourism, and real estate. We should say that the direction of foreign investment described above played a certain part in improving China's infrastructure, creating a good investment environment, and strengthening China's production capacity. Especially in the initial stage of opening up, this was definitely a necessity. But this direction of foreign investment also exposed quite a few problems. It specifically revealed that this direction of foreign investment gave insufficient attention to "bottle neck" industries and foreign-exchange earning export industries.

The infrastructure is very necessary. It is the basis for carrying out the development of the direct production sector. In view of the fact that development of the infrastructure is characterized by long-term investment, making an initial investment is undoubtedly correct, however this does not mean investing large sums up front. If foreign investments are directed in this way, not only can it easily constitute a debt crisis, but it also can easily create tremendous waste. This is because the infrastructure lacks the capacity to pay for itself, and developing the infrastructure sector too early also causes the direct production sector not to have adequate capacity to fully utilize the infrastructure provided. This is not to say that China's foreign investment in the infrastructure sector is already so great that the direct production sector cannot absorb it. Actually our basic industries are still rather backward and far from able to satisfy the demands of modern industrial development. The problem is that our funds are limited, with foreign exchange even more deficient. This situation determines that in directing foreign investment we must consider immediate urgent needs as well as considering future development. We can make initial investments in urgently needed infrastructure projects, [but] we should also concurrently estimate and plan for the new demands on infrastructure construction [which will come] after the future development of the direct production sector. From this perspective, the current stage of China's foreign investment in the infrastructure sector is slightly high.

With the amount of foreign investment relatively fixed, if inputs to the infrastructure are larger, the inputs to the other sectors are necessarily smaller. In China's current direction of foreign investments, there is a lessening of investment in the intermediate products sector and in the export sector which earns foreign exchange.

The intermediate products sector is an industry with rather large forward and backward linkages. Therefore, it clearly has a driving effect. In addition to having a high degree of linkage and being able to spur the rapid growth of the entire economy, this sector also has a strong capacity for capital formation and is characterized by high production efficiency. The development of this sector helps the domestic economy free itself from

dependence on foreign capital and helps form the industry's capacity for international competition, thereby contributing to exports' capacity to earn foreign exchange. The intermediate products sector is also characterized by a high concentration of technology. It can spur improvements in the technological level of the entire industry through seriation of complete sets, and can be a powerful impetus for the rapid growth of the economy. In this respect, therefore, it is necessary to appropriately increase foreign investment.

The foreign-exchange earning export sector should become another key direction for foreign investment, because enhancing the capacity of exports to earn foreign exchange is useful not only for paying back current foreign investment, but is also a good preparation for attracting further foreign investment. The extent to which a country can utilize foreign investment is still mainly determined by that country's capacity to earn foreign exchange [through] exports. We also should correctly understand the foreign-exchange earning export industry: "Foreign-exchange earning exports" not only refers to direct [exports], but also indirect ones; [it] not only refers to current [exports], but also future ones. Therefore, "foreign-exchange earning exports" should be a dynamic, long-term concept. This meaning of export industries which earn foreign exchange is the key to China's direction of foreign investment.

The infrastructure sector, the intermediate products sector, and the foreign-exchange earning export sector are the sectors to be stressed in directing China's foreign investment now and for a long time to come. From the long term perspective, foreign investment in the infrastructure sector will gradually decrease, and investment in the intermediate product and foreign-exchange earning export sectors will gradually increase.

In view of the different characteristics of industries and sectors, as well as the different nature of foreign investment sources themselves, various segments of foreign investment should have their own emphases in directing investments. The emphasis for China's current stage of international loans, especially concessionary loans from multilateral international banking institutions and bilateral government organizations, should be on projects to develop natural and energy resources and build the infrastructure. Commercial loan investment should focus on industries which require small investments, show quick results, and earn a high rate of foreign exchange. Direct investment should be focused on light and textile industries, and the food, machine-building, electronic manufacturing, and manufactured goods industries, as well as on developing new technologies and products.

By selecting the best emphasis and direction for investment based on the special characteristics of the foreign investment, we can make foreign investment play its proper role. However, this does not at all mean that there is a one-for-one correspondence between foreign investments from various different sources and different

industries or even different projects. China's present stage of directing foreign investment overemphasizes this one-for-one correspondence. If this continues, it will create uneven suffering or joy. In the final analysis, unfair competition will stand in the way of enhancing investment efficiency. As far as how to place foreign investment from different sources is concerned, China can refer to India's method, merging various types of interest and interest-free loans with domestic investment funds to form a "National Investment Project Fund." Then, based on the project's economic returns, the state works out different loan conditions, fully utilizing the leverage of interest rates and regulating the distribution of loans at different rates of interest.

A rational direction of foreign investment should still properly deal with the relationship between foreign and domestic investment. Foreign investment acts as a supplement to domestic funds, and should maintain a certain degree of consistency with the direction of investment of domestic funds, but it certainly is not a concentrated, high degree of uniformity. The placement of domestic investment is inappropriate and ineffective for certain industries and projects, so foreign investment can be used exclusively. This indicates that in directing foreign and domestic investments there is not only a parallel relationship, but also a mutually beneficial relationship. China's current structure for directing domestic and foreign investment stresses the parallel relationship and overlooks the mutually beneficial relationship. A three-dimensional, intersecting structure of parallel and mutually beneficial domestic and foreign investments should be China's goal in directing foreign investments.

A country's foreign investment structure often can be divided into the existing foreign investment structure and the newly-added foreign investment structure. We call the former the existing structure of foreign investment and the latter the incremental structure of foreign investment. The existing structure of foreign investment is rather useful in guiding investments in the incremental structure. Therefore, rationalizing the existing structure is the basis for rationalizing the incremental structure and even the overall investment structure. The incremental structure can prevent or ameliorate irrationalities in the existing foreign investment situation to a certain extent, but because the incremental structure is no match for the existing structure in quantity, it would after all be extremely difficult if [we] want to consider changing the existing structure.

It has not been long since China began using foreign investment, and it is still not widely used. Although in some spheres there are places where the direction of foreign investment is not altogether rational, there has not yet been a situation that produced a serious distortion in the existing foreign investment structure. However we can by no means lower our guard. As the author sees it, with regard to the direction of foreign investment, we should on the one hand make every effort to rationalize the existing foreign investment structure. On



the other hand we should free the incremental foreign investment structure from the grip of the existing foreign investment structure whenever the latter becomes rigid, and strive to turn around the irrational existing structure. Although it could be said that [using] the incremental foreign investment structure [to turn around] the existing structure is like trying to put out a fire with a cup of water, a "cup of water" is always better than "no water." Even if it seldom changes the rigid situation, it never exacerbates the already existing rigidity.

China's current basic national condition is characterized by its vast and extensive territory, with uneven levels of regional economic development and a varied rate of economic development. This situation requires that when we consider rationalizing the direction of foreign investment, we must not only focus attention on various industries and sectors, but at the same time should also give overall consideration to the special situations in different areas.

China's coastal region has a rather flourishing economy, and its rate of economic development is relatively rapid. Its economic strength is solid, its industrial categories rather complete, its economic structure relatively rational, its technological and productive capacities fairly strong, its work force is of comparatively good quality, and its infrastructure is also rather complete. It is also China's economic zone for opening to the outside world and has a comparatively strong capacity to attract foreign investment and repay [loans]. The hinterland's productivity level is comparatively low and its production technology ability, labor force quality, and infrastructure are relatively backward. Therefore, its level of total economic development is not high, its rate of economic development is not fast, it lacks the capability to attract foreign investment, and is even further lacking in ability to repay foreign investments.

Faced with this reality, relatively feasible ways for China to use foreign investment are: The coastal investment structure should make the transition from the current stage, where direct investment and international commercial loans are equally stressed, to the future [stage] where international commercial loans are given priority. The investment structure in the hinterland should make the transition from the current stage of international concessionary loans to a middle [stage] which stresses direct investment and international loans equally, and continue evolving in the long run [into an investment structure which] places particular stress on international commercial loans. The advantage of acting in this manner is that every channel of foreign investment can be fully utilized. Coastal regions can make the most of their infrastructure, quality labor force, technology, and productivity to attract direct investments and international commercial loans, actively earn foreign exchange, and support the hinterland's use of foreign investment. Coastal regions using this foreign investment pattern can concurrently invest concessionary loans in the hinterland to the fullest extent possible. To a certain extent this

will lessen the hinterland's limitations in attracting foreign investment caused by a backward economy, a lack of infrastructure, and weak industrial production abilities.

### III. The Scale of China's Foreign Investment

Opening to the outside world opened the door for China to use foreign funds. In the ten years from 1979 through the first half of 1988, China's actual use of foreign funds totalled more than \$41 billion. Of this, foreign loans amounted to \$29.5 billion, direct foreign investment was approximately \$10 billion, and commodity credit and other forms of foreign investment amounted to \$2.2 billion. Using more than \$41 billion in foreign investment over ten years is certainly not a very large amount; from the perspective of China's absolute scale of foreign investment utilization, it should still be considered rather small. Also, China's debt service ratio, which is an important indicator of the scale of foreign investment, is presently less than 10 percent, which is both lower than the general international safety line of 15 percent and the warning line of 20 percent, and even lower than the average 22-percent debt service level for developing countries. To conclude from this that China's foreign investment utilization is exceedingly prudent and China has no debt problem, and that we should quicken the pace of using foreign investment would truly be an oversimplification. Whether to maintain, expand, or reduce the current scale of foreign investment utilization is determined not only by the absolute scale of foreign investment, but also by the relative scale of foreign investment. We should look not only at the present level of foreign investment, but also at the rate of growth of foreign investment.

With regard to the rate of China's foreign investment utilization, aside from 1983, when foreign investment utilization actually fell 18.6 percent compared to 1982, there was a great increase in the rate of foreign investment utilization in any particular year. From 1983 through 1987 the average growth rate of China's foreign investment utilization was 39.8 percent. If we [look at] the actual yearly situation, we can see that the rate of foreign investment utilization increases from year to year. There was a 36.5-percent increase in 1984, a 64.99-percent increase in 1985, a 62.7-percent increase in 1986, and a 76-percent increase in 1987. The strong increases in the rate of foreign investment utilization far exceeded the rate of development of China's national economy in the same period. [If] development continues at this rate, the absolute amount of foreign investment will rapidly increase. Therefore, the small absolute scale of foreign investment is only temporary.

China's relative scale of foreign investment utilization is certainly not very small. This conclusion can be reached by analyzing a few different factors influencing the scale of foreign investment utilization.

First, analyze China's ability to absorb foreign investment. We should say that China's ability to absorb



foreign investment is not completely strong. Whether it is the ability to provide domestic funds, goods and materials, and basic facilities, or the ability to provide technical personnel, [China] is rather weak. Although China's rate of capital accumulation is approximately as high as 32 percent, nevertheless a high rate of accumulation cannot resolve China's funds shortage. This is because the high volume of asset circulation and stock is somewhat offset by the low utilization rate of asset stock, as well as by the rigidity of investment stock; the result is a lowering of investment efficiency. Economic development exacerbates the tightness of goods and materials supplies. An overly-vigorous rate of foreign investment utilization inevitably will gradually heat up the scramble for raw and processed materials and intermediate products. The infrastructure has improved to a certain extent, but it still needs to improve further. Presently there is a shortage of high technology personnel, and further training will require a certain period of time.

Second, analyze China's foreign trade situation. In recent years China's foreign trade has developed at a very rapid rate, but the foreign trade structure is not altogether rational. Within the export commodities structure, primary products account for 44.22 percent [of the products], while manufactured products account for 55.78 percent, with the vast majority of manufactured products being textile and clothing exports. (Calculations are based on relevant figures from the *China Foreign Economy and Trade Yearbook* for 1985, 1986, and 1987, and indicate average figures for 1984 through 1986.) This type of export structure restricts the scale of foreign investment utilization to a certain extent, because the rate of foreign exchange earnings of primary products is determined by domestic costs and also by changes in international prices. Moreover, the cost of exploiting China's primary products is comparatively high, and as exploitation progresses, there will doubtless be progressive cost increases. Another aspect is the decrease in demand for primary products in the international market due to the factor of technology advances. There has been a straight drop in the average international price of primary products, at least in the last 50 years, and recent global economic studies estimate that this trend will continue. Primary products are also characterized by large price changes, instability, and difficulty in forecasting. This creates the possibility for primary products to not only experience progressive increases in foreign exchange earnings, but also to have large fluctuations in foreign exchange revenues at the same time. Foreign exchange revenues from textile and clothing exports are comparatively impressive, but the market for this portion of finished goods not only has numerous quota limitations, but also has fierce competition. Thus it is difficult to earn more foreign exchange. Within the import structure, most [products] are considered essential imports, and there is comparatively little flexibility in import requirements. This would indicate that the future scale of imports cannot be reduced very much. On the contrary, with more rapid economic construction, the volume of imports would increase.

Therefore, China's foreign trade deficit cannot be turned around for a rather long period of time.

Third, analyze China's ability to adjust to the outside world. China has not been opened to the outside world for long, and the lengthy period when it was a secluded country has resulted in a backward information sector, with sources of information blocked. [China is] often a step behind in acquiring the latest international development trends. A "time lag" makes it difficult for China to closely monitor the pulse of world economic changes. Even if we promptly understand the latest changes in world economic trends, we are not necessarily able to adapt to these changes. The rigidity of the economic structure formed over a long period causes structural changes to be suppressed, often affecting the whole situation. Some institutional abuses also exacerbate the difficulty of changing the structural direction. From this perspective, China's ability to react to the world economy is rather weak. The inability to react is also reflected in [China's] ability to raise foreign funds. It has not been long since China set foot in the international monetary market and the scope of its involvement is limited. There are some international monetary markets that close us out and some international monetary markets put rather harsh terms on us. Obviously, [our] ability to enter or leave the market at any time, or to promptly borrow urgently needed funds to deal with unexpected needs is extremely limited. Relative unfamiliarity with the international monetary business also makes China insufficiently flexible in reacting to changes in the international monetary situation and unskilled in the use of new monetary tools. Therefore, it is unavoidable that [we] will incur a certain amount of unexpected risks when using foreign exchange funds.

A closely related problem is how to treat China's debt service ratio index. On the surface, China's debt service ratio index is on the low side, but how was this debt service ratio index of less than 10 percent achieved? Because all of the foreign loans that China took out during the "Sixth 5-Year Plan" were concessionary [loans] with an average interest rate of 5 percent, a 25-year maturity, and an 8-year grace period, the vast majority of direct investment agreements have not yet reached maturity. Therefore, in the present stage [we] have not yet reached the peak of principal repayment, interest payment, and debt liquidation. At the same time, export revenues are rather impressive, thereby producing a biased, low-level debt service ratio.

We should thoroughly and dynamically study the debt service ratio. We need to not only understand the present situation, but more importantly we must keep an eye on the future. A very large portion of China's foreign debt maturity is concentrated in the years from 1990 through 1992, and the task of paying principal and interest on loans during that period [will be] very serious. Controlling whether changes in export earnings due to fluctuations in future export production and sales, rises and declines in the export market, and rises and falls in the prices of export commodities are to our advantage or not

is not entirely within our subjective capabilities. Thus future debt service ratios will certainly be higher than present ones. We certainly are not optimistic about the present debt service ratio of less than 10 percent.

Quite a few problems remain with regard to gradually increasing the absolute scale of China's foreign investments, emphasizing increasing the relative scale, and further using foreign investment. So, should [we] simply maintain the present scale of foreign investment utilization? The answer is negative. In the process of using foreign investments [we have] discovered a number of problems which can be overcome. The scale of foreign investment utilization not only can but should be expanded. The key is to get a good hold on the rate. A rate of increase in foreign investment similar to the present [rate] is a bit too vigorous. A growth rate for foreign investments slightly higher than the growth rate of the economy is possible, but the two cannot differ too greatly, and the former cannot exceed the growth rate of the economy for a long time.

The rate of accumulation of domestic funds has a rather large influence on the scale of foreign investment utilization. China's present rate of accumulation of funds is already very high. There is not a large possibility of raising this comparative ratio further, but we can tap the potential within the rate of accumulation.

Change the present foreign trade structure. The share of finished goods in the export structure should be raised, especially that of the rapidly expanding machinery and electrical appliances exports. Exports should be more varied, and regional distribution should be broadened to guard against declining demand for a certain product or increased market blockages causing a decrease in foreign exchange revenues. In the import structure we should limit luxury goods imports, and import raw and processed materials, intermediate products, and suitable machinery and equipment which China urgently needs as much as possible.

Infrastructure development and personnel training are long-term tasks, and they should progress in a planned and measured [manner] in order to prepare the prerequisite conditions for further expanding the scale of foreign investment utilization.

The efficiency of a country's investments, the ability to react to situations in the outside world, the degree of flexibility in structural adjustment, the penetration of the international monetary market, the level of control of the debt situation, and the turnover rate for foreign investments directly influence the relative scale of its foreign investment. Efforts to strengthen these can result in a relative increase in foreign investments without a change in the absolute volume of foreign investments.

What is the appropriate scale of foreign investment utilization? In addition to the numerous factors stated above, the economic growth rate is one of the most important factors influencing the scale of foreign investment utilization. Rapid growth of the economy requires

funds. Where there is a shortage of domestic funds it is necessary to seek foreign investments as supplements. But foreign investment is not after all a "bottomless pit." The volume of foreign investment provided in a certain time period is always limited. Thus, when formulating development plans we must proceed from reality and with a long view. We should not harm the overall situation for immediate benefits, and [we should] guard against the tendency to work for quick success and instant benefits in order to accomplish short-term goals while sacrificing the long-term goals of economic development.

In summary, when using foreign investment we should be prudent, but we cannot be conservative; we should be safe, but we cannot be rigid. With regard to the scale of foreign investment utilization, I oppose the course of holding steady in times of stability. I rather tend toward the viewpoint of seeking to move forward in times of stability.

#### **'Good' Balance of Payments Reported for 1989**

90CE0274B Beijing JINRONG SHIBAO in Chinese  
31 May 90 p 1

[Article by Zhang Guilin (1728 2710 2651): "China's Balance of Payments Situation Was Good Last Year"]

[Text] The situation in the balance of payments in 1989, which was announced the other day by the State Administration of Exchange Control [SAEC], shows that there was an improvement in China's balance of payments situation last year. Exports continued to grow, the scale of imports was controlled, direct investment by foreign businessmen developed fairly fast, and the state's reserve of foreign exchange increased. The deficit in regular items was \$4.32 billion, and the surplus in capital items was \$3.72 billion.

Last year, of the regular items in China's balance of payments, the trade deficit was \$5.62 billion, the net income of the labor services was \$920 million, and the free transfer net income was \$380 million. In the capital items, the long-term capital net influx was \$5.24 billion, \$1.81 billion less than in 1988, of which there was \$3.39 billion in direct investment by foreign countries and by Hong Kong and Macao, an increase of \$200 million as compared to that of 1988. The net efflux of short-term capital was \$1.52 billion, a decrease of \$1.6 billion compared to that of 1988. The net influx of long-term capital was reduced by \$3.41 billion compared to that of 1988.

In 1989 there were the following five characteristics in China's balance of payments situation:

*Continued growth of exports* In accordance with the state's statistical specifications for the balance of payments, in 1989 trade exports amounted to \$43.22 billion, or, deducting factors that cannot be compared, an increase of 7.7 percent compared to that of 1988. The

main reasons for the good- export situation were: inflation was brought under control, the contradiction between domestic and foreign sales showed a trend toward mitigation, the situation in foreign capital purchases and reserves was good, and the amount of commodities that could be provided for export increased; the establishment of the practice of the contractual business responsibility system aroused the enthusiasm of foreign trade enterprises; governments at all levels attached importance to the work of foreign trade export, and they made, as much as possible, priority arrangements for foreign trade purchasing funds, raw materials needed for export production, and the transportation of export materials; and the export of industrially manufactured goods grew fairly fast, with big increases in the export of silk, clothing, machinery and equipment, and electromechanical products.

*The scale of imports was controlled* Based on the International Monetary Fund's statistical specifications, China's imports in 1989 amounted to \$48.84 billion, which, deducting factors that cannot be compared, was a 6.8 percent decrease compared with that of 1988. In the first half of the year, imports increased by 28 percent compared with those in the same period of the year before, and from June to December of last year imports fell 7.4 percent compared with those in the same period of the year before. The main reasons for the fall in imports in the second half of the year were: the scale of the state's investment in capital construction was brought under control; at the same time the relevant departments implemented the state's policy on controlling imports, strengthening the control of the import of electromechanical products and consumer goods for daily life, so that the import of these products on average fell as compared with what they were in 1988. At the same time there was a certain readjustment of the import structure.

*Income from tourism fell* China's foreign exchange income from tourism was \$1.86 billion, \$390 million less than in 1988. The drop in foreign exchange income from tourism was mainly the effect of the June 4 disturbance. However, by hard work this income is gradually being restored.

*Direct Investment by foreign businessmen developed fairly fast* China continued to make progress in externally oriented economic development. In 1988 direct investment accounted for 15.8 percent of the total amount of foreign exchange used, and in 1988 this figure rose to 18.4 percent.

*The state's reserve of stored assets increased, and the Chinese banks' foreign exchange balance decreased* At the end of 1989 China's foreign exchange reserve was \$17.02 billion, \$530 million less than in 1988. Of this amount the state's foreign exchange reserve was \$5.55 billion, \$2.18 billion more than in 1988; as well, the Chinese banks' foreign exchange balance was \$11.47 billion—\$2.7 billion less than in 1988.

To sum up, in 1989 the overall situation in China's balance of payments was good; the deficit in regular items was basically made up by the net influx of capital, and the reserves did not drop much. Relevant figures in the SAEC think that increasing nontrade income, further adjusting the import commodity structure, and reducing the deficit in regular items will still be the important tactics for insuring the normal development of China's balance of payments.

### Foreign Exchange Reserves Up in First Quarter

OW0106020690 Beijing XINHUA in English  
0101 GMT 1 Jun 90

[Text] Beijing, June 1 (XINHUA)—China's foreign exchange reserve saw a big increase in the first quarter of this year, the People's Bank of China, the central bank, announced here today.

By the end of March the reserve was 21.35 billion U.S. dollars, 4.33 billion U.S. dollars more than the figure at the beginning of the year.

Of this figure, the state treasury currency totalled 8.32 billion U.S. dollars, an increase of 2.77 billion U.S. dollars, and the carry-overs of the Bank of China, a state-owned bank specializing in overseas banking business, amounted to 13.03 billion U.S. dollars, an increase of 1.56 billion U.S. dollars.

This indicates that China's balance of international payments has improved and its repayment ability of foreign debt has strengthened, analysts here said.

Meanwhile, the RMB [Renminbi] devaluation last December has promoted exports, as has the economic readjustment policy, they said.

In the first three months of this year, China's export volume increased by 11.6 percent compared to the same period last year.

Recovery of the tourism industry has also brought the country more earnings in hard currency.

According to the People's Bank of China, the growth of the foreign exchange reserve per month in the first quarter totaled 875 million U.S. dollars, 1.088 billion U.S. dollars and 2.367 billion U.S. dollars, respectively.

### Fujian Foreign-Funded Enterprises Boost Development

OW2806061190 Beijing XINHUA in English  
0537 GMT 27 Jun 90

[Text] Fuzhou, June 27 (XINHUA)—More than 1,500 foreign-funded enterprises have gone into operation over the past 10 years in east China's Fujian Province, greatly contributing to its economic development.

Since 1980, provincial authorities have approved 2,708 foreign-funded enterprises involving 2.2 billion U.S. dollars of investment, and over 80 percent of their

products are being sold abroad, according to Chen Zuwu, deputy director of the Fujian Provincial Committee of Foreign Economic Relations and Trade.

Chen said the annual industrial output of these enterprises has reached six billion yuan (about 1.27 billion U.S. dollars), accounting for 21 percent of the total industrial output of the province. Their exports total 470 million U.S. dollars, accounting for 28.9 percent of the province's exports.

Foreign-funded enterprises paid 500 million yuan (about 106 million U.S. dollars) in taxes last year, 10 percent of the province's revenue, said Chen.

Five of the six products whose annual exports have reached 50 million U.S. dollars are produced by these enterprises, which have promoted the production of electronics, shoes, garments, toys, and jewelry.

From January to May this year, provincial authorities have approved 339 foreign-funded enterprises, involving investment of about one million U.S. dollars, a 17 percent increase over the same period last year.

#### Foreign Capital Utilization in Guangdong Reviewed

90CE0271A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 21, 21 May 90 pp 20-21

[Article by Deng Nonggan (6772 6593 1629): "Review of Foreign Capital Utilization in Guangdong Since Rectification"]

[Text] Many people in Guangdong panicked briefly after the drive to improve the economic climate and rectify the economic order went under way, fearing that it might retard the utilization of foreign capital. More than a year later, facts have given us an answer: instead of undermining the utilization of foreign capital in Guangdong, economic rectification has enabled the province to pull off what it failed to do when the economy was overheated—effecting the transition from the quantitative to the qualitative. In more vivid language, it was a "false alarm."

#### At a Turning-Point

During the decade of reform and openness, Guangdong has created a whole new look in its open policy by capitalizing on the central government's special policies and flexible measures and making the most of its advantages. The province attracted almost \$10 billion in foreign capital and accounted for over 60 percent of the nation's "enterprises of the three capital sources" and enterprises engaged in the "three forms of import processing and compensation trade." At the same time, Guangdong has put together the rudiments of export production bases and expanded its markets from Hong Kong and Macao, the traditional markets, to Southeast Asia, Europe, and the United States. As an exporter, Guangdong is among the leaders in the country. There is

absolutely no question but that the utilization of foreign capital has injected enormous vigor into the province's economy. However, the overheating of the economy in recent years had also caused many new contradictions and problems for the work of utilizing foreign capital, as shown most sharply by the following:

- The growth rate of foreign capital was overly rapid and the debt burden too onerous. Since 1984, foreign capital utilization rate had exceeded 43 percent several years in a row. Because loans made up a substantial part of foreign capital, the province's debt burden had been getting heavier and heavier. Although it had not yet borrowed more than it can repay, the rates of foreign capital utilization and borrowing were not sustainable in the long haul.

- The direction of foreign capital utilization was not justifiable and the industrial structure was unbalanced. A disproportionately large share of the foreign capital went to the tertiary industry and ordinary processing industry, was used to finance the import of whole plants and parts and components, or was invested in the production of goods destined for the domestic market. Meanwhile, too little was spent on the primary and secondary industries as well as basic industries, the import of advanced technology, or the production of exports. As of late 1988, over 80 percent of the foreign capital had gone to the usual processing industry.

- The power to examine and approve projects was fragmented and many projects and imports duplicated one another. In recent years localities and enterprises placed too much emphasis on economic invigoration and deregulation and not enough on management. They focused too much on the microeconomy to the neglect of the macroeconomy. They went to great lengths to bend the law to accommodate illegal activities, paying scant attention to law and discipline. In the process, managerial authority became fragmented, with some localities, departments, and sectors vying with one another for foreign loans. There was serious duplication in the utilization of foreign capital. As everybody jumped on the bandwagon, units ended up importing the same equipment or putting up the same projects. Duplication was particularly serious in the investment in plants making polyester fibers, aluminum products, disposable cans, electric home appliances, and amusement parks.

- The imported projects tended to be of a fairly low quality with limited profitability. In most Sino-foreign joint ventures and contractual joint ventures, foreign capital amounted to a small share of the total investment and was rarely in the form of spot exchange. Only a small percentage of their products was exported. For these reasons, the projects were not making a satisfactory profit. According to an analysis by the province's finance department of 1,407 Sino-foreign joint ventures and contractual joint ventures in 1987 and 1,838 such enterprises in 1988 which had

gone into production, 36.3 percent and 31.3 percent, respectively, were losing money.

Driven by the dual forces of economic overheating and the pursuit of interests, we had gotten to a point where we had no choice but to tackle the problems. The situation was quite clear: the initial stage of the open policy when the emphasis was on the quantity of foreign capital was fast coming to an end. This important change required Guangdong to seize the opportunity to improve the economic climate and rectify the economic order to shift the focus of its utilization of foreign capital to the control of speed, the adjustment of structure, the improvement of standards, and the search for profits.

### Jumping Out of the "Hot Pot"

A few years ago the economy was racing ahead steadily. Somebody described it as a "hot pot." Everybody was trying to get into it, making it even hotter.

The year 1988 was one when Guangdong improved the economic climate, rectified the economic order, "reduced the heat," and "moderated the temperature," a year when a major change occurred in the utilization of foreign capital. Its hallmark was the transition from quantity-oriented utilization to quality-oriented utilization.

Both the import of projects and the utilization of foreign capital have become more rational. Departments at all levels screen and select projects carefully, choosing the best. They stress quality and profitability instead of blindly going after the scale of operations and quantity. This is essentially why the province has been able to elevate the utilization of foreign capital to a new level during the period of economic rectification. In 1989, the province as a whole actually utilized \$2.4 billion in foreign capital. While this figure was off 1.6 percent compared to 1988, it represented a new high for the province in terms of the overall standard of foreign capital utilization. To begin with, a host of projects badly needed by the national economy was funded with foreign capital, including 110 large- and medium-sized projects each with a price tag over \$5 million. Second, the share of foreign capital in the projects rose from 47 percent last year to 62.5 percent. In one third of the projects, the proportion of foreign capital was 70 percent. Third, foreign loans fell 12.3 percent from 1988. Foreign government loans, which carried more favorable terms, were valued at \$180 million.

The investment mix has been improved. To achieve the goals of industrial structural adjustment in the province, the departments involved took pains to limit nonproduction and ordinary processing projects and guided foreign capital toward energy and raw material industries as well as export-oriented and technology-intensive enterprises. Production projects made up 98 percent of all new contracts signed in 1989. In Shenzhen, Foshan, and Jiangmen, the rate was 100 percent. For instance, electricity generation projects alone numbered 18 with a

total investment of \$284 million and a combined production capacity of 2.3 billion kwh. They will go a long way toward easing electricity shortages in the entire province.

Exports have increased and profitability has gone up. Enterprises of the "three capital sources" have gradually been adopting a new tack—improving management, expanding exports, balancing their books on their own, and raising profitability. In 1989, the total exports of enterprises of the "three capital sources" amounted to \$2.23 billion while enterprises in the "three forms of import processing and compensation trade" generated exports worth \$610 million in all, up 85.7 percent and 52.2 percent, respectively, over a year ago. To survive and grow, a large number of erstwhile domestically oriented enterprises made arduous and successful efforts to open up the international market, exporting instead of selling to the domestic market. Some state enterprises have saved themselves from the danger of closing down as a result of fund and raw material shortages by going into processing for foreign businessmen using existing production conditions.

There is a trend toward diversification in the utilization of foreign capital. Some forms seldom used in the past (such as transferring foreign capital onto domestic enterprises, the selling of stock, and foreign government loans) have acquired a new popularity. Wholly foreign-funded enterprises, in particular, have enjoyed a spurt of rapid growth. With 303 such projects approved in 1989, a 200 percent increase over a year ago and worth a total of \$640 million in foreign investment. The energy, automobile, heavy, and chemical industries, which are capital-intensive and have a long production cycle, are well represented among them. For instance, American investors spent \$250 million building the largest wholly foreign-owned concern in China, the Panda Automobile Corporation, in Huizhou. Phase 1 of the project, which will have an annual production capacity of 300,000 small sedans, is under way.

### A "Forced" Quantum Leap

Thanks to the drive to improve the economic climate and rectify the economic order, and despite difficult economic circumstances, the utilization of foreign capital in Guangdong has replaced its quantity orientation with a quality orientation and shifted its focus from the pursuit of speed to profitability in just one short year.

To begin with, the substantial cutback in domestic demand, the sluggish market, and the difficulty of moving the goods have forced all municipalities and counties to take the initiative to adjust the industrial structure and product mix when they examine and approve new projects. In the process killing a number of ordinary processing projects and steering more foreign capital into basic industries. Furthermore, a number of enterprises that produce for the domestic market have also been driven to pry open the international market by every possible means. Many "enterprises of the three

capital sources" have also been prompted to increase the share of their products to be sold overseas.

Second, under the "double tight" policy, the investment of the Chinese partner in a Sino-foreign joint venture must stay within certain limits. Because of this restriction on the investment of Chinese partners in joint ventures, wholly foreign-owned enterprises have been growing rapidly under the guidance of the pertinent departments and the share of foreign capital in joint ventures has gone up. Consequently, while the investment in renminbi has declined, it has been able to attract more foreign capital.

Clearly the quantum leap in qualitative improvement, "compelled" by the drive to improve the economic climate and rectify the economic order, will pave the way for the sustainable and beneficial utilization of foreign capital in Guangdong in the future.

### **Guangzhou Foreign Trade Investments Up**

*HK1406033190 Beijing CHINA DAILY in English  
13 Jun 90 p 2*

[By staff reporter Li Zhuoyan]

[Text] Guangzhou—This city's foreign trade and economic cooperation programmes made further steps forward during the past five months.

According to Wang Deye, deputy director of the city's Committee for Foreign Trade and Economic Cooperation, the number of projects utilizing foreign investments exceeded 1,250, up nearly 66 per cent over the same period last year. Total contracted investment of these projects amounted to \$175 million, of which over \$50 million is already being utilized and that amount was 9.3 per cent more than in the same period of last year.

The number of co-operative management and production enterprises and those of wholly-foreign-owned enterprises increased. Twenty-nine contracts of wholly-foreign-owned enterprises were signed, as compared to none in the same period last year.

More foreign-invested enterprises enlarged their investment. About \$10 million was involved.

A recent survey of 572 foreign-funded enterprises in the city showed over 80 per cent of these enterprises are having a favourable balance in their foreign exchange expenditure and revenue.

Exports also increased greatly. In the first quarter of this year, the city's total exports amounted to \$382 million, up 46 per cent over the same period last year.

To further improve the environment for foreign investment, Guangzhou is to focus on constructing more projects in raw materials and energy supply, according to Li Ziliu, the newly appointed acting mayor of the city.

Half of the city's 10 key projects in the Eighth Five-Year Plan period (1991-1995) would involve energy and raw materials supply. About 6.2 billion yuan (\$1.3 billion) will be put in the projects, Li said.

However, the money is still not enough for the construction of the projects, the acting mayor said. Thus, the municipal government had decided to seek help from Hong Kong, Macao, Taiwan and foreign countries.

Most of these projects would be put up for bid at the Foreign Trade and Economic Co-operation Fair of Guangdong Province to be held in Zhuhai at the end of this month.

### **Wuhan Builds First Foreign Trade Port**

*OW0507101990 Beijing XINHUA in English  
0724 GMT 5 Jul 90*

[Text] Wuhan, July 5 (XINHUA)—The first foreign trading port in Wuhan, capital of Hubei Province, is nearing completion.

A project official said the Qingshan Foreign Trade Port consists of three berths and warehouses with a total floor space of 20,000 square meters.

The 70 million-yuan (about 14.8 million U.S. dollars) project began in July 1987.

The port, able to accommodate 5,000-dwt ocean-going ships, is expected to handle 900,000 tons of cargo a year.

Since Wuhan, the largest foreign trade port and distribution center in the interior of China, began to open to the outside world in 1980, the trade volume at the port has soared.

### **Hunan Increases Export Trade Volume**

*HK0507140090 Changsha Hunan Provincial Service  
in Mandarin 2200 GMT 3 Jul 90*

[Text] Hunan's export trade volume attained an all-time high in the first half of this year.

Statistics showed that from January to June of this year, Hunan's export trade volume reached \$385.16 million, fulfilling 55 percent of Hunan's annual export trade quota and representing an 18-percent increase over the corresponding period of last year.

In the first half of this year, various export trade companies of Hunan Province, especially those engaged in grain, oil, food, tea, drawnwork, chemical industrial product, machinery, silk cloth, and livestock export, witnessed a rapid increase in their export trade volume.

Since the beginning of this year, the Hunan Provincial CPC Committee, the Hunan Provincial People's Congress, and the Hunan Provincial People's Government have attached great importance to Hunan's export trade development.

At the beginning of this year, the Hunan Provincial People's Government delegated some important powers, such as those concerning foreign-trade cadre appointment, removal, and management, examination of foreign-trade personnel who go abroad, and so on, to the Hunan Provincial Foreign Economic Relations and Trade Commission, thereby giving greater scope to their role in coordinating and managing foreign trade work.

Thanks to the unreserved support and cooperation given by financial departments, planning commissions, economic commissions, taxation departments, banks, railroad authorities, and departments concerned at all levels in Hunan as well as to the concerted efforts made by all the staff and workers in Hunan's foreign trade circle, Hunan's foreign trade work achieved gratifying results in the first half of this year.

### **Liaoning Province Expands Export of Local Products**

OW1706184690 Beijing XINHUA in English  
1449 GMT 17 Jun 90

[Text] Shenyang, June 17 (XINHUA)—Liaoning Province in northeast China is expanding the export of local products, an official at the provincial Commission of Foreign Economic Relations and Trade said here today.

The official said Liaoning's exports of local products in the first five months this year accounted for 88 percent of the province's annual target.

He said exports by the province's 16 industries including electronics, chemicals and arts and crafts all increased by a big margin over the same period last year.

Statistics showed that the province's 300-odd foreign-funded enterprises earned 64.27 million U.S. dollars from exports in the first five months, 1.6 times more than the same period last year.

Exports of local products in border trade increased to 11.57 million U.S. dollars worth in the first five months from 670,000 U.S. dollars in the same period last year.

### **Shandong Cement Export Achievements Reported**

SK1207035190 Jinan DAZHONG RIBAO in Chinese  
12 Jun 90 p 1

[Summary] Since the beginning of 1990, Shandong Province has exported more than 230,000 tons of cement worth 46 million yuan to Thailand, the Philippines, Bangladesh, and other countries. Its export volume of cement is expected to reach more than 1 million tons this year. Over the past few years, our country has achieved swift development in cement production which ranks the country first in the world. The cement output of Shandong Province also ranks it first in the country. There are more than 20 cement plants across the province assuming the export mission.

### **Shenzhen Prepares To Trade With USSR, East Europe**

90CE0249 Shenzhen SHENZHEN TEQU BAO  
in Chinese 31 May 90 p 2

[Article by staff reporters Li Jiaqi (2621 0163 3825), Shi Yunsheng (1395 0542 3932), and Ceng Jingchang (2582 2529 1603): "Popularity of 'Silk Road' Trade Relations—Record of Conversation on the Question of Shenzhen's Trade With the Soviet Union and Eastern Europe"]

[Text] The other day we reporters had a conversation with Xu Yang [6079 2254], director of the city government's Economic Development Bureau, on the question of Shenzhen's trade with the Soviet Union and East Europe.

[Reporter] This year the situation facing Shenzhen City's foreign trade is still very grim. In a certain sense, can its trade with the Soviet Union and Eastern Europe be called a new "Silk Road," and in what aspect is this opportunity specifically manifested?

[Xu Yang] First of all, it should be said that the disadvantageous factors that Shenzhen's foreign trade situation faces have both a particular nature and, to a certain degree, a universal nature. Although there is a trend toward relaxation in the world situation now, the development of East-West trade has been spectacular in recent years, and the progress in science and technology has made the growth of trade in high-tech products fairly fast, the growth of the world economy has slowed, the growth rate of equipment invested has fallen, the demand for primary products has decreased, prices have taken a big fall, coupled with the fact that trade protectionism has reared its head, and the development of foreign trade in the export of primary products has encountered fairly many difficulties. The fathomless changes in the value of the U.S. dollar as the world's main circulating currency and the influence of other factors make it highly likely that there will be many turbulent and tortuous changes on the international market in the nineties. Therefore, the commercial quarters of all countries do all they can to seek a pluralization of their own product markets. The Soviet Union and the East European countries are now carrying out new economic reform measures and accelerating the pace of opening up to the outside world in order to satisfy the daily growing needs of their people; and they urgently need to import a large amount of light industry, foodstuffs, and other consumer products for living, which provide to us many favorable circumstances for opening up this market. The Soviet and East European markets have become the hotpoint of every country's trade, and China has a long history of trade with the Soviet Union and the East European countries. The product structure of our special economic zone has fairly many superiorities compared with other areas in China. We should grasp the opportune time to actively open up this potentially huge market.



[Reporter] Because of geographical and policy factors, in oceanic trade Shenzhen occupies a superior position compared to the interior, but in the past Sino-Soviet trade was mainly carried out in the form of evidence account trade and border trade. Will Shenzhen's superiority still exist in overland trade?

[Xu Yang] I think the same superiority will remain. This superiority is first manifested in the product structure. The Soviet Union and the East European countries have always, in their economic situations, made heavy industry primary and have not attached importance to light industry and consumer goods production. After the opening up to the outside world, the people's demand for consumer goods was released at one fell swoop, and there must be a large amount of imports before this demand can be satisfied. Shenzhen is a zone that makes primary the production of light industry, electric, medicinal, chemical industry, textile and clothing, food and beverage, and other export products. The product structure is fairly close to the changes in the trends on the international market, and makes up just enough of their insufficiencies in this respect. Second, Shenzhen has fairly many organizations in Hong Kong, which can provide very many conveniences. Third, the 10 years of reform and opening up to the outside world have had quite an influence on the Soviet Union. Since last year several dozen Soviet and East European delegations have come to Shenzhen to inspect it and discuss trade and cooperation. Shenzhen's enterprises, through different channels, have gone to various places in the Soviet Union to show and display their products, and they have been universally welcomed. The value of the various contracts, agreements, and statements of intent now signed exceed 100 million Swiss francs. For example, the Zhonghang 3C computer exported by Shenzhen has been assembled and used in some scientific research organizations in the Soviet Far East Region.

[Reporter] Sino-Soviet trade is complementary. Looking at its nationwide scope, China's light industry and daily-use products are what the Soviet Union is short of, and the Soviet Unions' mineral products, timber, motor vehicles, and electricity-generating equipment are what China needs. Does this complementary nature also exist in Shenzhen?

[Xu Yang] For Shenzhen, the significance of this complementary nature is even greater. In Shenzhen's economic structure, a fairly large proportion is market regulated, and the great majority of raw material are purchased on the international market or on the domestic outside-plan market, the Soviet Union has abundant resources, has many raw materials and much equipment; its basic industries are developed, including steel products, timber, cement, chemical fertilizers, mineral products, coal, crude oil, and electricity-generating equipment. I think that the complementary nature of the industrial structure and product structure is more significant for Shenzhen than for the interior.

[Reporter] Sino-Soviet trade is now gradually becoming a hotspot. Is this attraction permanent for Shenzhen? In particular, the political situations in the Soviet Union and East Europe are now fairly turbulent, which adversely affects the economy and trade. Will there occur "short-term behavior" in the trade with the Soviet Union and East Europe?

[Xu Yang] I think that the development of the Soviet and East European markets is not just an expedient measure, but is an important component part of our opening up to the entire international market. This year the European Common Market launched "antidumping" activities here, and some of the activities were aimed at us. We must see the grim side of competition on the international market now. The total population of the Soviet Union and the East European countries is more than 400 million, and it is a huge market awaiting development. At present, almost all the industrially developed countries and the "Four Small Dragons" of Asia are paying attention to this region. America, Western Europe, Japan, South Korea, Hong Kong, and Taiwan are advancing on this market. Therefore, faced with favorable circumstances that are hard to get, we also should see that from the beginning we face a stern challenge. To develop trade with the Soviet Union and Eastern Europe, Shenzhen needs to cultivate a number of special talents, and needs to study and solve many particular problems such as account settling and excessive currency. In particular, the usual period for staple commodities exchange trade is fairly long, and although its profits can be fairly high its risks are fairly big. If one link cannot be grasped, many troubles can be caused. Therefore, with regard to the development of trade with the Soviet Union and East Europe, we must take our time in coming to a decision. Any "short-term behavior" in international market competition always fails in the end.

[Reporter] Besides Shenzhen's carrying out of single-commodity trade with the Soviet Union and Eastern Europe, are there plans for it to carry out production cooperation, labor service cooperation, and incoming materials processing?

[Xu Yang] Most of the trade items already or now being discussed with the Soviet Union begin with commodity exchange trade. However, we must see that the approach of this single form of commodity exchange trade is more and more narrow. We must get a tight grip on inquiring into many forms of trade cooperation before our economic and trade competition with the Soviet Union and the East European countries can develop on a fairly large scale. In the final analysis, the Soviet Union is a relatively developed industrial country, and it cannot for long depend on the exchange of its raw materials for the light industry and consumer goods it needs. In addition, there sometimes exist some contradictions between local and border trade on the one hand and the central government's profits in them, and for the great majority of the raw materials that we are interested in the Soviet Union has practiced in succession export license systems. Although now the more than 10,000 state-run and



collective enterprises in the Soviet Union have foreign trade rights, in reality the scope and jurisdiction of their business is limited. The long-range forecast is that ready-exchange trade will become a main form of trade, but the Soviet Union and the East European countries are short of ready-exchange currency, and there seems to be a process of development in ready-exchange trade. At present, what the Soviet Union most encourages is the joint-venture, contractual enterprises in which there is a common development of the needed products. Therefore, after thoroughgoing investigation and research, accurately selecting items that can display the superiorities of the two sides, and cooperating in production technology, or concluding project contracts and exporting labor, should be the way of development in the future. Certain principles should be grasped in starting joint-venture, contractual enterprises with the Soviet Union and the East European countries: 1) by cooperating with the localities certain superiorities can be obtained, which is advantageous for putting Shenzhen's products on the local market; 2) make up abroad Shenzhen's shortage of resources by bringing back the profits on the products to the joint-venture enterprises; and 3) select some local resources or products of abundant raw materials, and use our side's technology to organize production in the locality in order to get fairly large comparative profits.

[Reporter] Based on the product grades and types in demand on the Soviet market, what specific preparation has Shenzhen made for taking part in the first national meeting on trade with the Soviet Union and East Europe?

[Xu Yang] The 25 Shenzhen companies that will take part in the trade exhibition have applied for 11 booths. More than 2,000 exhibits in five major types—electromechanical, light industry, textile and clothing, grain and oil-bearing foodstuffs, and medicines—have been sent to Harbin for exhibition; and a detailed list of commodity exchange, ready foreign exchange, and economic cooperation items has been provided. During the meeting period the Shenzhen exhibition group will hold a news conference and a discussion meeting on the economic and trade cooperation of the Shenzhen Special Economic Zone. At the appointed time, the Shenzhen fashion model team will display Shenzhen's latest dress fashions. Also Shenzhen will open an office in Harbin, and the city's relevant leaders will go there to preside over the opening ceremony. The Ministry of Foreign Economic Relations and Trade has approved the holding in Shenzhen in September this year of talks on the Shenzhen Special Economic Zone's trade with the Soviet Union and East Europe. The purpose of this trip to Harbin is, first, to get better acquainted and to be timely traders; and, second, to publicize the special economic zone. While striving to facilitate business deals, invitations will be extended to the Soviet Union and East Europe, in order to make good preparations for Shenzhen's talks this autumn on trade with the Soviet Union and East Europe.

## ECONOMIC ZONES

### Official Discusses Shenzhen Foreign-Funded Bank Loans

OW0607110290 Beijing XINHUA in English  
0818 GMT 6 Jul 90

[Text] Shenzhen, July 6 (XINHUA)—Foreign-funded banks in Shenzhen Special Economic Zone are expanding loans to enterprises in the zone, a local bank official said here today.

By the end of May, the outstanding loans of the foreign-funded banks in Shenzhen City had increased by 29 percent over the same period of last year, according to an official of the Shenzhen branch of the People's Bank of China.

Total loans outstanding in foreign exchange of the zone's foreign-funded banks is close to the total of that of state banks in the zone.

Shenzhen's growing exports have created opportunities for the development of foreign-funded banks. The zone has approved 16 branches and seven representative offices of foreign banks, and more are awaiting approval to open branches in Shenzhen.

The foreign-funded banks in Shenzhen have brought in not only funds but also advanced management expertise.

The Shenzhen Special Economic Zone has adopted preferential terms to encourage the development of foreign-funded banks.

## LABOR

### City Labor Markets Included in International Plan

HK2706102990 Beijing CEI Database in English  
0857 GMT 27 Jun 90

[Text] Jinan (CEI)—The Ministry of Labor has signed an agreement with the International Labor Office on a technology cooperation plan.

The plan will be implemented in Shandong, Liaoning, Henan and Shanxi provinces.

According to the plan, sample surveys will be conducted among workers and staff members in these provinces with international aid; factors concerning the development of labor markets will be analyzed; plans and policies will be worked out for the reform of labor markets in these regions; and professionals will be trained in line with teaching materials provided by related world organizations.

## POPULATION

### Examination of Methods, Goals of Fourth Census

90CE0141A Beijing RENKOU YANJIU  
[POPULATION RESEARCH] in Chinese No 2,  
29 Mar 90 pp 8-11

[Article by Sun Jingxin (1327 0352 2450): "Explanations and Working Plans of the 'Fourth PRC Census Methods'"]

[Text] The "Fourth PRC Census Methods" were drawn up on the basis of relevant State Council directives and principles for taking the 1990 census, pilot projects, and opinions that were solicited in many ways.

In order to draw up the "Fourth PRC Census Methods" as early as possible, opinions began to be solicited in many ways from concerned departments, colleges, universities, and scientific research institutes in March 1988, from which tentative ideas on the relevant issues concerning plans for census methods were derived. Moreover, a special pilot project was conducted in Baoding, Hebei in April 1988 on ways to thoroughly investigate matters, such as general population size, births, and deaths. The "Fourth PRC Census Methods (Draft)" was drawn up on this basis. Another nationwide census pilot project was conducted in Qinhuangdao, Hebei in April and May of 1989. This pilot project covered the three regional classifications of urban neighborhoods, towns, and rural areas. On-the-spot meetings were held during this pilot project to thoroughly discuss the "Methods" (Draft). After soliciting opinions from leading census groups in all provinces, autonomous regions, and municipalities, as well as from concerned State Council ministries and commissions, the State Council Leading Census Group Office further revised the "Methods" (Draft) and drew up the "Fourth PRC Census Methods (Revised Draft)" in July 1989. The "Methods" (Revised Draft) was thoroughly discussed at the second meeting of the State Council Leading Census Group, after which the "Fourth PRC Census Methods (Trial Draft)" was submitted by the State Council Legal Affairs Bureau to the State Council for examination and approval. Premier Li Peng signed PRC State Council Order No. 45 on 25 October 1989, which issued the "Fourth PRC Census Methods."

The full text of the "Fourth PRC Census Methods" (hereafter abbreviated as "Methods") consists of 33 articles. The following is a brief introduction to the "Methods."

**I. The Fourth Census Goals:** Article 1 of the "Methods" stipulates that the fourth census will "Provide reliable data with which to make a thorough and accurate investigation of the changes that have occurred in the size, regional distribution, structure, and quality of the population of the PRC since the third nationwide census, scientifically draw up strategies and plans for national economic and social development, make overall

plans for people's material and cultural lives, and check up on the enforcement of population policy."

The rich data obtained from the third census has certainly played a key role in helping the PRC draw up policies and plans for national economic and social development. The following are merely a few examples of this:

The third census provided reliable population data for strengthening the building of socialist democracy and the people's political power. The distribution and number of deputies elected and sent from all areas to the Sixth National People's Congress (NPC) in 1983, were calculated and determined by the nationwide urban and rural population count derived from the census, and census data was also used to restructure and strengthen urban and rural grass-roots political power. The third census also provided good basic data to better control residence registration.

The third census more accurately calculated the PRC's 1981 birth rate. While the PRC's 1981 birth rate was estimated at 17.64 percent according to the data in annual reports from all provinces, autonomous regions, and municipalities, it was actually found to be 20.91 percent based on census data. This provided a more realistic and feasible basis for family planning, and census data was also used to predict that the 11 peak childbearing years from 1986 to 1996 would be the crucial period in controlling PRC population growth.

The third census provided the basis for the PRC to draw up education and anti-illiteracy plans. The third census found that the number of illiterate and semiliterate people in the PRC had reached 235.82 million, or 23.5 percent of the whole population. Although this percentage was somewhat lower than in 1964, the existence of so much illiteracy and semiliteracy had not been anticipated by many comrades. Therefore, it provided the basis for the educational sector to draw up new anti-illiteracy plans. Census results are very important in helping the concerned departments draw up educational development plans for schools at all levels and socialist spiritual civilization plans.

The third census promoted the development of nationwide population analysis and research. It basically changed the PRC's former predicament of lacking statistical data in the areas of demographics and sociological research. The PRC used data from the third census to compile and publish works, such as the "PRC Population Series," the "Population Atlas," the "PRC Population Yearbook," and the "PRC Gerontology Atlas," which evoked strong international repercussions. Carlo, [not further identified] director of the French Population Research Institute, spoke about this approximately as follows: The years from 1982 to 1984 were memorable years in the history of world demographics. During these three years, the PRC, the country with the largest population in the world, supplied world demographics circles for the first time with much authentic data on PRC

population developments since 1950. This enabled us to make a considerable leap in our overall understanding of world population.

**II. The Leadership of Census Work:** Article 3 of the "Methods" stipulates that "The census will be taken under the leadership of the State Council and local people's governments at all levels," and that "Governments at all levels will set up leading census groups and offices, which will be responsible for census leadership, organization, and implementation, respectively." As the census is a strategic survey of national conditions and strength, a maximum peacetime mobilization, and an important matter that affects everyone, only by relying on firm leadership by the State Council and local people's governments at all levels can the masses be mobilized to work as one to make it succeed. This has been proved by the successes of our last three censuses.

**III. Census Objects:** Article 2 of the "Methods" stipulates that "The Census objects are people of PRC nationality and permanent residents of the PRC."

As the last three censuses, the fourth census is only of permanent Chinese residents of the PRC, while foreigners living in the PRC are not census objects. Article 16 of the "Methods" makes specific provisions for PRC personnel who are stationed overseas and those who are working or studying abroad. Although their registration at their former places of residence are temporarily cancelled because they are not within the boundaries of the PRC at census registration time, they are still census objects because their permanent places of residence are still in the PRC and they are still permanent residents of the PRC.

**IV. The Standard Census Registration Time:** Article 10 of the "Methods" stipulates that "Zero hours on 1 July 1990 is the standard PRC census registration time." Zero hours on 1 July was the standard time used for the last three PRC census registrations, and will remain the same for the fourth one.

The standard census registration time was set at zero hours on 1 July out of consideration for the following factors: 1) The choice of census registration time should be the season when there is little floating population and relative population stability, in order to facilitate the collection of census data. As the PRC is vast in territory and has great climatic and geographical differences, taking the census in the winter when heavy snow has sealed the mountain passes in some northwestern and northeastern regions, would cause many difficulties for census registration and data transmission. Because early July is the busy farming season in North and South China and population is fairly stable, the work is easier for census takers. 2) As 1 July is the middle of the year, data from this point in time can be directly regarded as the yearly average, which makes it easier to calculate many indexes, such as birth rate, death rate, and natural growth rate. 3) It facilitates comparison of census data with that from the last three censuses.

**V. Census Registration Principles:** In order to clarify the place at which every person should register and make sure that people are not counted twice or missed, Article 7 of the "Methods" stipulates that "The census will be taken according to the principle of registration at place of permanent residence. Everyone must register at their place of permanent residence. A person may register at only one place." Article 7 also makes specific provisions for particular conditions, in order to make the census more accurate.

**VI. Census Questions:** Article 8 of the "Methods" stipulates that there will be 21 questions on census forms. Individuals must answer 15 questions, such as name, relation to head of household, sex, age, nationality, nature and status of permanent residence registration, permanent residence status on 1 July 1985, reason for moving to locality, education, industry in which employed, occupation, unemployment status, marital status, number of births and living children, and women's childbearing status since 1 January 1989.

Households must answer six questions, such as household number, household status, number of people in household, number of births in household, number of deaths in household, and number of registered household members who left the county or city more than one year ago.

In order to gain an understanding of the health status of the population of the PRC and calculate average life expectancy, Article 9 of the "Methods" also stipulates that "Households which have suffered deaths between 1 January 1989 and 30 June 1990 should also fill out the 'Death Registration Form.'"

The main differences between the questions which were asked in the third census that was taken in 1982, and those in the fourth census, are as follows:

1. The fourth census contains the two additional questions of "permanent residence status on 1 July 1985" and "reason for moving to locality," which will help to understand PRC population migration and mobility in the last five years since the policy of reform and opening up to the outside world was developed in depth.

2. The fourth census contains the additional questions of "agricultural permanent residence registration" and "nonagricultural permanent residence registration" under the category of nature and status of permanent residence registration. This will be important in reflecting the size of PRC urban and rural populations and, in particular, the changes in the population that is provided with grain rations by the state according to the method of providing monthly quotas of food grain for individual urban residents, and the shifts in rural surplus manpower.

3. The fourth census contains additional questions in the education category on completion of studies, such as school attendance, graduation, or studying in school or at college, the aim of which is to accurately reflect the

actual educational level of the PRC population in order to understand the quality of the PRC work force.

4. The fourth census changes the period for reporting births and deaths from one year before the census to 1 and ½ years before standard census registration time. This will help both to more accurately calculate the birth, death, and natural growth rates of the PRC population, and also to more accurately estimate average life expectancy.

5. The fourth census contains additional questions in the category of death registration, such as education, marriage status, and lifetime occupation. This will be important in analyzing the impact of education, marriage, and occupation on health, in order to improve medical and health conditions.

Due to the short preparation period and fund limitations, the fourth census was designed according to the principle of asking fewer but better questions, and asks questions about only the most basic population characteristics. In the course of soliciting opinions, some concerned departments suggested asking additional questions about things, such as housing, income, work unit ownership, spoken dialect, number of years of schooling, professional job title, birthplace, and birth control method. Although these are undoubtedly very important questions and some of them were asked in the pilot projects, they were not included in the fourth census due to manpower, financial and material limitations. It is recommended that the concerned departments use other polling methods to obtain this data.

What must be emphasized here is that the questions asked in the census are not related to current policies. For instance, the minimum age for answering marriage and childbearing census questions is 15 years old, which is much lower than the prescribed minimum age stipulated by current policy. Moreover, census questions on subjects such as marriage and childbearing must be answered truthfully, and not only if the actual situation reported is legal. Only this will help us to understand the actual objective situation, in order to better investigate, study, and draw up policies. Census questions are asked only to obtain data for government macro-policy making, and do not affect the enforcement of current policies or any of the masses' rights or duties.

**VII. Census Registration Methods:** Article 13 of the "Methods" stipulates that "The major census registration method will be census takers going house to house to ask questions and fill in forms on the spot. When necessary, registration centers can also be set up within census zones." Census registration will last 10 days from 1-10 July 1990, during which time census takers will go to all homes to ask questions on the spot. Each household will choose one person to do the reporting, who will answer each question on the census form for all family members. After filling in all items, the census taker should read back the information to the person who reported it, and have him sign the form after checking

that there are no errors. When house-to-house registration is inconvenient, registration centers can be set up within census zones, where those chosen to do the reporting by each household can go to report registration information.

House-to-house census registration allows census takers to ascertain the size and other characteristics of each family on the spot, makes it easier for the masses to report the information, and relieves the misgivings of those doing the reporting about answering questions on sensitive issues, such as unmarried pregnancies and adopted children, allowing them to answer questions while keeping their answers confidential. It also enables census takers to establish a friendly atmosphere with those doing the reporting, in order to make registration easier.

**VIII. Census Quality Control:** The quality of census data is the key to, and must permeate all links of, census taking. In order to obtain high quality census data, Articles 18, 19, and 20 of the "Methods" make specific provisions for registration reexamination, quality control, and later quality spot checks. After census registration is completed, census directors must organize census takers to conduct a complete reexamination and correct mistakes that are discovered and verified. After the reexamination is completed, all areas must also use nationally unified and stipulated sampling methods to resurvey spot check samples, in order to evaluate the quality of the nationwide census registration. In order to ensure registration quality, all rural, town, and neighborhood census offices must set up quality inspection groups.

During the registration process, the personnel in these quality inspection groups must make the rounds of the village and neighborhood committees under their jurisdiction to do things such as solicit the views of the masses on whether people, births, or deaths have been counted twice or missed, and to check up on whether the information written on census forms by census takers is correct, whether answers to questions were left out or filled in wrong, and whether there are correct and logical relations among answers. Moreover, they will have the authority based on stipulated quality criteria, to decide whether census takers' work must be done over by reconducting house-to-house surveys and registrations.

The State Council Leading Census Group will also draw up nationally unified criteria for checking and accepting quality in all phases of work for all links, such as registration, manual collation, coding, data recording, and tabulation. Data will be moved on the next work link only if it conforms to the acceptance criteria. Data which does not meet the stipulated criteria must be recollected on the spot, in order to achieve "discrepancy feedback" and eliminate as many basic-level errors as possible.

**IX. Census Data Collation and Publication:** Articles 21 and 26 of the "Methods" provide for census data collation and publication. Collation will be carried out in the following three steps:

1. Manual methods will be used to collate and report the main data to the higher authorities level by level. Nationally collated results must be submitted to the State Council before the end of September 1990, and will be published in a census bulletin upon examination and approval;

2. Ten percent of village and neighborhood committees will be selected to collate data in advance by computer, which task must be completed before the end of May 1991. Data samples will be collated in advance mainly to provide party and government departments at all levels with timely and detailed census data within 10 months of census registration;

3. Computers will be used to collate 100 percent of the data, and the State Council Leading Census Group Office will submit the collated data from the nationwide census to the State Council for examination, approval, and publication before the end of September 1992.

The "Fourth PRC Census Methods" take into consideration both the needs of PRC modernization, and also the actual possibilities of current PRC manpower, material, and technical capabilities, as well as the specific conditions of this census, i.e., the huge amount of social mobilization work and the short preparation period. They fully draw on the successes of the last three censuses by taking into account the PRC realities of a vast territory, a large population, and an undeveloped economy, while using certain good foreign census experiences for reference. They can be said to be scientific and feasible census methods which basically conform to current PRC realities.

#### **Guangdong Sends Census Letters to Households**

*HK2706090590 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 26 Jun 90*

[Text] The population census offices in all cities and counties of our province started today sending letters to heads of all households, inquiring of them about necessary details needed for census purposes, and especially about family members drifting to other places and people from other places residing at their households, so that they will be able to get ready for all necessary things beforehand and declare to census enumerators for registration strictly according to the facts.

The letter is also attached with a notice to heads of all households with regard to population census, and a note of fixing the date in advance for making an appointment with census enumerators for registration.

The registration of the coming population census is based on each household, and two kinds of tables will be distributed to each household. One is the registration table for census and the other is an attached list, namely, a list for registration of the deceased. The registration table for census includes items mainly regarding the

basic situation of family members, their migration, education level, occupation and marriage status, and births to female members.

## **TRANSPORTATION**

#### **Air China Company Opens New Route**

*90P30053A Beijing JINGJI RIBAO in Chinese  
24 May 90 p 2*

[Summary] The Air China Company opened an air route, beginning 20 May, linking Hohhot, Baotou, and Xian. The total distance of the route is 888 kilometers. The planes depart every Sunday and Thursday from Hohhot's Baita Airport at 0800 hours, stopping over in Baotou for 45 minutes and arriving in Xian at 1115. Taking off from Xian, the flight returns to Hohhot by the same route. Air China's Inner Mongolia branch company handles the Yun-7 passenger plane's in-flight operations.

#### **Tibet Begins Airport Modernization, Expansion**

*OW1407192990 Beijing XINHUA in English  
1417 GMT 14 Jul 90*

[Text] Lhasa, July 14 (XINHUA)—An extension project to turn Gonggar Airport in Lhasa, the capital of Tibet Autonomous Region, into a modern international airport officially began today.

The project, expected to cost 268 million yuan (57 million U.S. dollars), is due for completion in August or September next year.

A 4,000-meter long and 60-meter wide runway will be built and advanced ground equipment installed to enable the airport to handle large passenger and freight planes, including Boeing 747s.

The airport is located 98 kilometers southeast of Lhasa at an elevation of 3,940 meters.

After completion of the extension project, more international and domestic flights will be added.

#### **First Joint State-Province Railway Opens**

*OW1007212090 Beijing XINHUA in English  
1411 GMT 10 Jul 90*

[Text] Beijing, July 10 (XINHUA)—The Yidu-Yangkou Railway in east China's Shandong Province began official operation today.

The railway, built by Shandong Province and the Ministries of Railways, Chemical Industry and Light Industry, is the country's first railway built jointly by a province and state ministries.

The 72.123-kilometer railway has an annual transport capacity of seven million tons, which is expected to grow to 11 million tons.

The railway, built at a cost of 127 million yuan (27 million U.S. dollars), will be used to transport salt, fishery products and raw materials as well as finished products of several big salterns and industrial enterprises in Shandong Province.

### **Railroad Electrification Project Speeds Up**

90P30060A Chengdu *SICHUAN RIBAO* in Chinese  
6 Jun 90 p 1

[Summary] The Sichuan-Guangxi Railroad Electrification Project has completed half of its total investment of 600 million yuan for technical updating and transformation. It is now stepping up its operation on the electrification portion. The section between the Ganshui and Guiyang stations, about three-fourths of the entire length of 424 kilometers, is to be completed and in operation before the year's end, and the completion of the entire project is expected before September 1991.

The electrification project is a key capital construction project, officially begun in 1985. It starts at Chongqing and stops at Guiyang, making it a major artery connecting Sichuan and Guizhou Provinces. In recent years, there has been a sharp increase in the railroad's capacity. It is estimated that the railway's total cargo capacity will be more than 17 million tons in 1990 with an in-transit capacity of more than 5 million tons. It can carry more than 5 million passengers annually.

Forty-two of the 55 railway stations have completed the basic technical updating and transformation, with the Chongqing Station being the most costly at 94 million yuan. About 716 meters of a double-track tunnel has been completed.

Upon completion of the entire electrification project, the railway is expected to double the existing transport capacity.

### **Rail Line Linking Faku, Kangping Opens to Traffic**

SK0307022190 *Shenyang Liaoning Provincial Service*  
in Mandarin 2200 GMT 1 Jul 90

[Summary] A railway line between (Daxing) Station of the Tiefa Mining Area and (Shantaizi) Station of Kangping County opened to traffic on 1 July. The railway line links Faku County with Kangping County.

### **Construction Begins on Jinan-Qingdao Expressway**

OW0407045290 *Beijing XINHUA* in English  
1346 GMT 3 Jul 90

[Text] Jinan, July 3 (XINHUA)—The construction of an expressway between Jinan and Qingdao, two trading ports in east China's Shandong Province, started today.

The expressway, which will stretch 318 km, will run through 17 cities and counties in Shandong and serve Shandong's "industrial corridor".

It will have four lanes, with a 100 kph speed limit.

The whole project is expected to be completed at the end of 1993.

### **Guangzhou Opens First Express Beltway**

OW0407045190 *Beijing XINHUA* in English  
1443 GMT 3 Jul 90

[Text] Guangzhou, July 3 (XINHUA)—The first phase of a round-the-city expressway, the first of its kind in China, opened to traffic today in Guangzhou, capital of Guangdong Province.

The 60 km expressway has six lanes with a total width of 34.5 m and an emergency parking path 2.5 m wide. The speed limit is 100 kph [kilometers per hour].

Linked up with an expressway leading to Foshan, it will alleviate traffic jams in the city.

The first phase of the project cost 285 million yuan, raised through bank loans and issuance of bonds.

### **New, Expanded Harbor Facilities Handle More Cargo**

OW0907120490 *Beijing International Service*  
in Mandarin 0900 GMT 15 Jun 90

[Text] Early summer is full of vitality. Along China's over 18,400-kilometer coastline, harbor construction has never ceased. Tremendous achievements have been made in this regard. From Dandong in Liaoning in the north to Fangcheng in Guangxi in the south, harbor construction machinery roars in more than 100 harbors of various sizes. At the construction sites for ships' berths, docks, and sea walls, truckloads of rocks, sand, and cement are dumped into the water day and night. Many long cement piles are driven into seabeds. Some small hills along the coasts have been leveled and turned into vast flat grounds through the use of dynamite and bulldozers. Hundreds of thousands of workers are engaged in a great undertaking of harbor construction with their wisdom and efforts.

According to a responsible person of the Ministry of Communications, this year is the fourth year in which great achievements have been made in harbor construction. According to plans, 30 deepwater berths and 44 medium and small berths will be completed and put into operation before the end of the year. The annual addition of cargo handling capacity is expected to exceed 40 million metric tons. The 1990 addition will be equal to the total additions in the 18 years from 1953 to 1970. The docks to be completed soon include (Xigangchi) dock in Yantai, lumber docks at (Guangang) in Shanghai and Shijiugang in Baoshan, (Dongtudi) dock in Tianjin,

and (Xianshuangxi) dock in Nanjing. Some will be completed as soon as the end of August.

The following key state projects are also under construction: A harbor district in Yingkou, which, upon completion, will increase the total cargo handling capacity of Yingkou Harbor to more than eight million metric tons and turn Yingkou Harbor into the second largest harbor in the northeastern region; the (Qianwan) new harbor district in Qingdao, which, upon completion, will raise the total cargo handling capacity of Qingdao Harbor to more than 50 million metric tons; the (Miaoling) harbor district in Lianyungang, which, upon completion, will enable Lianyungang to play an even better role as an export base for goods coming from the northwestern region through the Lianyungang-Lanzhou railroad; and the expansion of Zhenjiang, Zhangjiagang, and Nantong Harbors on the Chang Jiang, which, upon completion, will create better conditions for the export trade of various provinces in eastern China.

Reform and opening to the outside world have provided a good opportunity for the development of China's coastal ports. During the Sixth Five-Year Plan period, China built 54 deepwater berths and added 100 million metric tons to its cargo handling capacity. The addition during the period was equal to almost the total additions in the 30 years before the founding of the PRC.

This year is the last year of the Seventh Five-Year Plan. In the four preceding years, we built 69 deepwater berths and added 12,250 metric tons to our cargo handling capacity, far exceeding the total additions during the Sixth Five-Year Plan period. Along China's coasts there are 26 harbors, each with a cargo handling capacity of over one million metric tons. There are some 270 10,000-metric-ton class deepwater berths. There are special docks for handling coal, mineral ores, petroleum, lumber, grain, and containers. Major coastal harbors have become new hubs connecting various parts of China with foreign countries. They surely will play an important role in promoting national economic development.

Moreover, the development of China's coastal harbors has been promoted by the use of a large amount of foreign capital. Since 1985, China has built seven container wharves at Shanghai, Huangpu, and Tianjin, and two coal wharves at Huangpu, with loans from the World Bank. It has built four coal wharves at Qinhuangdao and Shijiu with Japan's overseas development funds. Projects under construction with foreign funds include the fourth stage of the coal wharf project at Qinhuangdao, the second stage of the (Miaoling) project at Lianyungang, the first stage of the (Qianwan) project at Qingdao, and the second stage of the eastern Xiamen project. These projects are expected to become operational in the next year or two.

Many foreign and Taiwan businessmen are interested in the four planned major deepwater international transshipment ports in China—Dayaowan in Dalian, Beilun

in Ningbo, Meizhouwan in Fujian, and Dapengwan in Shenzhen. Some have already made some investment, while others are exploring the possibility of investment. According to some authoritative economists, China will continue to develop its coastal harbors in the 1990's in order to meet the needs of domestic economic development and international exchanges. It is estimated that there will be 2,000 berths in China's coastal harbors, of which 1,200 will be deepwater berths, in the early 21st century.

### **Boundary River Port Opened to USSR**

*SK0607040290 Harbin HEILONGJIANG RIBAO  
in Chinese 27 May 90 p 2*

[Summary] Qike Port was officially opened to the Soviet Union on 10 May. Located in Xunke County in the middle reaches of the Heilong Jiang, Qike is the third port on the boundary river to be opened to the Soviet Union after the Heihe and Tongjiang Ports. Before it officially opened, the port carried out test delivery of goods, and both Chinese and the Soviet sides held that the test was successful. In addition to its advantages in geographical conditions, Qike Port also has advantages in cargo loading, unloading, and distribution. The port is now provided with special mechanized and semi-mechanized wharfs for loading and unloading grain, coal, oil, and timber. During the freezing season, goods can be delivered in cars across the frozen river. The annual capacity of the port is about 250,000 tons. Convenient transport facilities in the areas around the port provide favorable conditions for its goods distribution. Through water transportation, goods can be delivered to Heihe City, Huma County and Mohe County in the upper reaches of Heilong Jiang, and to Jiayin, Luobei, and Tongjiang in the lower reaches of the river. Goods can also be delivered to Jiamusi and Harbin along Songhua Jiang through the confluence of Heilong Jiang and Songhua Jiang. Through the main highways and national defense highways near the port, goods can be delivered directly to Heihe, Sunwu, Beian and Yichun.

### **Shandong Container Ship Collides With Dredger**

*SK2106043090 Jinan Shandong Provincial Service  
in Mandarin 2200 GMT 20 Jun 90*

[Text] At 1235 on 18 June, the Shandong Provincial International Shipping Company's Luhai 65 container ship collided head-on with the (Jinhangjin 102) self-propelled dredger of the Tianjin Navigation Bureau at the No. 6 Qingdao-Dagang navigation channel in Jiaozhou Bay. The Luhai 65 container ship was not seriously damaged, and there were no deaths or injuries. The (Jinhangjing 102) dredger sank.

On receiving report of the accident, the Qingdao marine safety police station of the Ministry of Communications immediately organized people to do rescue work. Responsible comrades of the provincial government and of Qingdao City government went to the scene to direct the rescue work. The Qingdao Navigation Bureau and



the salvage group of the North China Sea Fleet of the People's Liberation Army [PLA] and departments concerned also pooled their efforts to participate in the rescue. As of the time when reporters filed this dispatch, 31 out of the 39 sailors on board the (Jinhangjin) dredger had been saved. After emergency treatment in the hospital, all of them were out of danger. The remaining eight are being given emergency treatment.

## AGRICULTURE

### Agriculture Ministry To 'Reduce' Peasants' Burden

HK1107122490 Beijing JINGJI CANKAO in Chinese  
15 Jun 90 p 1

[Report by Xiao Demu (5135 1795 2606): "Ministry of Agriculture Makes Arrangements To Sort Out Documents Related to Peasants' Burden"]

[Text] In order to earnestly reduce peasants' burden, work must be done from top to bottom, and first, sort out documents related to peasants' burden in the central authorities, provinces, municipalities, and autonomous regions, and on the basis of identifying the courses for increase in peasants' burden, study and formulate concrete measures for solution. This was an important arrangement made recently by the Ministry of Agriculture in order to sort out and handle peasants' burden.

Early this year, after the State Council issued the document concerning "earnestly reduce peasants' burden," except Ningxia and Tibet, there are 28 provinces, municipalities, and autonomous regions which have explicitly implemented organs supervising and managing peasants' burden at the provincial level; Hunan, Hubei, Heilongjiang, Tianjin, Shanxi, Liaoning, Shandong, Anhui, Henan, Jiangxi, Sichuan, Xinjiang—a total of 12 provinces, municipalities, and autonomous regions—have drafted or promulgated regulations or measures managing peasants' burden; and 21 provinces, municipalities, and autonomous regions have launched province-wide, municipality-wide, and region-wide topic research and survey on peasants' burden. The data provided by various localities and the typical survey revealed that at present, peasants' burden comes mainly from above, not only including the departments concerned in various provinces, municipalities, and autonomous regions, but also the departments concerned in the central authorities. According to the report from Tonghe County, Heilongjiang Province, there are 115 kinds of peasants' burdens in the province, among which 32 come from the departments concerned in the central authorities, 75 from various departments at the provincial level in the province, and 8 from the county.

At the recently convened National Forum on Work in Sorting Out, Handling, Supervising and Managing Peasants' Burden, the Ministry of Agriculture made arrangements for work in the second half of this year, adopting the measure of integrating top and bottom, and sorting

out documents related to peasants' burden in the departments concerned in the central authorities and in various provinces, municipalities, and autonomous regions. It demanded that before mid-June, various provinces, municipalities, and autonomous regions sort out documents and speeches related to peasants' burden issued from units in the central authorities, and that before the end of June, various provinces, municipalities, and autonomous regions formulate plans for work in sorting out, handling, supervising, and managing peasants' burden. According to information, at the same time when the Ministry of Agriculture sorted out documents within its own system, it also sent notices on sorting out documents involving peasants' burden to more than 40 ministries and commissions in the central authorities, hoping that various ministries and commissions coordinate work in sorting out peasants' burden.

At this forum, the responsible person of the Ministry of Agriculture pointed out clearly that from now on the documents related to peasants' burden issued by various ministries and commissions must first be examined by the Ministry of Agriculture and approved by the State Council. The documents related to peasants' burden issued by various provinces, municipalities, autonomous regions, and departments, must first be sent to the local organs supervising and managing peasants' burden for examination.

### Summary of Advances in New Insecticide Research

90CE0239A Beijing ZHIWU BAOHU [PLANT PROTECTION] in Chinese No 2, 8 Apr 90 pp 37-39

[Article by Zhang Xing (1728 5281), Plant Protection Department, Northwest Agricultural College; and Pan Wenliang (3382 2429 0081), Plant Protection Institute, Hebei Provincial Academy of Agricultural Science: "Progress in Research on New Insecticides"]

[Abstract] Research on new insecticides to replace environmentally damaging compounds such as benzene hexachloride, DDT, and ethyl parathion is proceeding along seven different lines as follows:

1. Inhibitors of insect epidermis formation or hardening. Several promising finds have been made in this field, and some have moved out of the laboratory and into the fields and forests. Particularly noteworthy is the use of extracts of various plants in the Meleaceae, Plumbaginaceae, and Celasbiaceae families to inhibit epidermal growth.
2. Inhibition of synapsis development in insects using substances such as bicuculline, bendzodiazepine, and avermectins, a soil bacterium, against gamma aminobutyric acid (GABA), a neurochemical transmitter.
3. Chemicals that work on the secretion systems within insects nerves, notably on juvenile hormone, brain hormone, and metamorphosis hormone production.

4. Agents that interfere with insect behavior, particularly insect pheromones, food rejection agents, and lures.

5. Use of natural plant products to prevent and control insect pests. Research in this field employs mostly the following categories of chemicals: glucosides, quinoids and phenols, terpenes, cumarines, alkaloids, xylans, and steroids.

6. Biological engineering techniques.

7. Plant defense mechanisms triggered by insects themselves, as well as by drought, light, and other environmental conditions.

This two page article succinctly summarizes these lines of research and some of the results achieved so far.

### Physicists Report Achievements in Agrotechnology

OW1107190490 Beijing XINHUA in English  
1537 GMT 11 Jul 90

[Text] Changchun, July 11 (XINHUA)—Chinese physicists have made achievements in agrotechnology by developing a light-assisted agent, a light adjusting membrane, magnetizers and laser seed growing technology.

The scientists, from the Changchun Physics Institute, said that these items will help develop China's agriculture and increase unit yields.

The light-assisting agent and membrane can accelerate photosynthesis and enhance the nutrition of plants.

According to the scientists, the technology has already been applied in some grain-producing areas, and the unit yield grew by 10 percent.

Laser seed growing technology has been tried on ginseng crops, with encouraging results, they said.

### Antipoverty Drive Reports New Successes

HK3006021690 Beijing CHINA DAILY in English  
30 Jun 90 p 1

[By staff reporter Liang Chao]

[Text] China's nationwide anti-poverty drive—launched five years ago in an effort to provide the country's millions of impoverished rural residents with food and clothing—has achieved new successes, CHINA DAILY has learned.

This was shown in the fact that the annual per capita income for 70 million rural poor people has now risen above the poverty line of 200 yuan.

As a result, the total number of rural residents whose income stands below the poverty line decreased from 110 million in 1985 to only 40 million by the end of 1989.

China's rural population totals nearly 900 million, against an urban population of about 200 million.

Yang Yongzhe, deputy head of the State Council's Leading Group for Economic Development of Poor Areas, told CHINA DAILY that if the present trend continues, the government goal of meeting the basic living needs of most people in the rural areas can be attained on schedule.

According to the anti-poverty goal put forward by the State Council in 1986 as a general policy, most people living in China's poor and backward rural areas are expected to have enough food and clothing by the end of this year.

However, Yang said the poverty problem cannot be completely solved according to this time table "in a few isolated areas," because China is such a large country and the situation varies in different poor and underdeveloped areas.

"The basic living needs of people cannot be fully met in some of the country's southwest and northwest poor areas by the end of 1990, as the government had hoped," Yang said.

"The government has made it clear that realizing its goal of boosting economic development in the country's rural poverty areas needs long-term and relentless effort. For this purpose, the State Council has approved a new anti-poverty plan for the next 10 years," Yang said.

In addition, the government has adopted policies preferential to resource development in the poor areas and some key projects, including the alleviation of agricultural and livestock taxes payable by farmers, whose incomes are below the poverty line.

The State funding for the anti-poverty drive will remain at the present levels of 4 billion yuan per year, which "may be increased" before the year 2000, depending on the further growth of the State revenue, Yang said.

By the end of this century, when the target of "initial prosperity for the whole country" is realized, the objective of improving the livelihood of rural people in the poor areas is also expected to be fulfilled, "through sustained efforts in the 1990s."

But even then, some poverty problems will remain in a few isolated areas, Yang said.

These are mainly some remote regions inhabited by minority nationalities—areas which suffer from the shortage of drinking water or endemic diseases.

Besides, some areas, battered by calamities resulting from their unfavourable natural conditions, also belong to the category, Yang added.

Yang also noted living standards of about 15 to 20 percent of the total poor areas, where people's income had once surpassed the poverty line, have been found to

decline again because of uncertain economic factors, such as market instability and natural disasters.

At present, more than 13 million people and 7 million heads of livestock, living the poor areas, are still without adequate supplies of drinking water.

### Export of Cereals, Oils, Cotton in June

HK1307104590 Beijing CEI Database in English  
13 Jul 90

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and food in June 1990, released by the General Administration of Customs:

Item	Unit	June 1990	June 1989
Pig	head	223,838	263,334
Poultry	in 10,000	304	403
Beef	ton	11,505	4,911
Pork	ton	19,103	10,870
Chicken	ton	3,290	2,299
Rabbit	ton	1,660	1,864
Egg	in 1,000	51,090	38,780
Aquatic products	ton	25,859	20,862
Fish	ton	1,950	4,259
Prawn	ton	1,524	1,495
Cereals	ton	610,669	624,788
Rice	ton	19,108	25,038
Soybean	ton	73,468	105,349
Pulses	ton	84,756	33,830
Maize	ton	354,062	321,627
Vegetables	ton	51,737	46,466
Fruit	ton	7,715	8,530
Orange	ton	14	42
Apple	ton		503
Sugar	ton	38,399	15,699
Canned food	ton	57,191	43,910
Pork	ton	15,132	11,325
Vegetables	ton	26,711	21,724
Fruit	ton	3,384	3,296
Others	ton	11,965	7,565
Vegetable oil	ton	13,850	3,052
Peanut	ton	38,399	31,851
Cotton	ton	28,091	43,402

### National Grain Storage

40060055B Beijing JINGJI RIBAO in Chinese 7 Jul 90  
p 1

[Summary] According to the Ministry of Commerce, by the end of June 7.73 billion kilograms of grain were put in storage, fulfilling 59 percent of the state plan.

### National Rapeseed Procurement

40060055A Beijing JINGJI RIBAO in Chinese 2 Jul 90  
p 1

[Summary] As of 20 June, 12 major rapeseed producing provinces and municipalities had put 1,638,000 tons in storage, accounting for 75 percent of the state plan. Of this amount, Anhui Province put 302,500 tons in storage, and Hubei Province put 252,500 tons in storage. This year the state raised the rapeseed procurement price to 1.408 yuan per kilogram, a 30.8 percent increase over 1989.

### Gansu Animal Husbandry Production Increases

HK1307013190 Lanzhou Gansu Provincial Service  
in Mandarin 2300 GMT 10 Jul 90

[Excerpt] Gansu's animal husbandry production witnessed a rapid growth in the second quarter of this year.

Statistics released by the Provincial Statistics Bureau show a rapid increase in the number of pigs, cattle, and sheep.

By the end of June, the total amount of livestock had reached more than 5.8 million, representing a 1.6 percent increase over the corresponding period of last year. [passage omitted]

### Hebei Hog Output

40060053C Beijing JINGJI CANKAO in Chinese  
22 Jun 90 p 2

[Summary] In May the number of hogs (excluding piglets) in stock in Hebei Province totaled 10,026,700, a 0.69 percent increase over the same period in 1989, and a 3.6 percent increase over the first quarter of 1990. By the middle of May Hebei had shipped 664,100 hogs to other provinces, an increase of 13,000 hogs over the same period in 1989.

### Henan Corn Area

40060054B Zhengzhou HENAN RIBAO in Chinese  
21 Jun 90 p 1

[Summary] In 1990 the corn area in Henan Province is 30 million mu.

### Hubei Rapeseed Procurement

40060054D Wuhan HUBEI RIBAO in Chinese  
24 Jun 90 p 1

[Summary] As of 20 June, Hubei Province had put 250,000 tons of contracted rapeseeds in storage, an increase of 135,000 tons over the same period in 1989. Rapeseeds procured at negotiated prices increased 32.8 percent, or 55,500 tons over the same period in 1989. The estimated gross output of rapeseeds in Hubei this year is 650,000 tons.

### Hubei Hybrid Rice Area

40060054A Wuhan HUBEI RIBAO in Chinese  
25 Jun 90 p 1

[Summary] The early hybrid rice area in Hubei Province is 1.7 million mu.

### Hubei Rural Savings

40060053F Wuhan HUBEI RIBAO in Chinese  
26 Jun 90 p 1

[Summary] As of the beginning of June, rural saving deposits in Hubei Province totaled 8.55 billion yuan, an increase of 272 million yuan over the end of 1989, and an increase of 558 million yuan over the same period in 1989.

### Jiangsu Watermelon Area

40060053E Nanjing XINHUA RIBAO in Chinese  
11 Jun 90 p 2

[Summary] In 1990 the watermelon area in Jiangsu Province will be about 1 million mu, a decrease of about 10 percent from 1989. Estimated output is 1.25 billion kilograms.

### Jiangxi Cotton Area

40060054E Nanchang JIANGXI RIBAO in Chinese  
7 Jun 90 p 1

[Summary] The cotton area in Jiangxi Province is 1,120,000 mu, an increase of 130,000 mu over 1989.

### Jiangxi Edible Oil Procurement

40060054C Nanchang JIANGXI RIBAO in Chinese  
18 Jun 90 p 1

[Summary] As of 5 June, Jiangxi Province procured 18,730,000 kilograms of oil, an increase of 9,640,000 kilograms over the same period in 1989. Of this amount, 12,510,000 kilograms of contracted oil were put in storage, an increase of 8,260,000 kilograms over 1989; and 6,220,000 kilograms of oil procured at negotiated prices were put in storage, an increase of 1,380,000 kilograms over 1989.

### Quality Jiangxi Hogs Sell Well in Hong Kong

90CE0238B Nanchang JIANGXI RIBAO in Chinese  
12 May 90 p 1

[Report by Li Wanhua (2621 5502 5478) and reporter Hu Rongrong (5170 5554 5554): "Jiangxi's Hogs Sell Well on Hong Kong, Macao Markets"]

[Text] Jiangxi's exported hogs have gone from being unmarketable to selling well on the Hong Kong and Macao markets. After five years of arduous effort, the hog quality structure has been successfully changed and the proportion of fine-breed hogs has risen, with a great improvement in quality. Hogs have become a staple

export commodity of Jiangxi's, earning nearly \$2 billion a year in foreign exchange. The Jiangxi Grain and Edible Oil Food Import and Export Corporation made the rational proposal to change hog quality and develop intensive feeding. The Jiangxi Economic Relations and Trade Office has highly commended the corporation's contribution to vigorously overcoming difficulties to expand exports and earn foreign exchange.

At the beginning of May, at the corporation we got the latest statistical figures: From January to April this year, Jiangxi supplied 50,201 hogs to Hong Kong. The fine-breed proportion was 68.8 percent, much higher than the average level for China as a whole. The selling price has risen, and the hog quality has entered China's advanced ranks.

Raising pigs has always been a strong point of Jiangxi's agriculture. In 1957 Jiangxi began exporting hogs to Hong Kong, and by 1982 it was selling 240,000 hogs a year. Under the new situation of fierce competition in export, since the early eighties there have occurred sharp changes on the Hong Kong market, which has turned from pursuing quantity to pursuing quality. The hogs that Jiangxi used to export were Yorkshires crossbred with local sows, and they had large bellies and a lot of thick, fatty meat. Again and again the quantity of Jiangxi's exports was reduced until it faced the danger of being squeezed out of the Hong Kong market. After comrades of the province's Grain and Oil-Bearing Foodstuffs Import and Export Corporation inspected the Hong Kong market on the spot, they immediately suggested to the provincial office that it take decisive measures and "fight with one's back to the river"—fight to win or die. Fine-breed pigs were swiftly imported from other parts of China and from abroad to replace the original breeds. At the same time large and medium-sized piggeries were gradually set up. In them modernized, advanced feeding methods replaced the original traditional-type pig-raising method practiced by countless households of "one handful of sugar and one ladle of water." The corporation also made more than 100 person-times surveys of some farms, reclamation and cultivation centers, townships and villages in Jiangxi that had a fairly good foundation in pig raising, wrote more than 30 survey reports, and proposed a plan for setting up export hog bases of various forms, for example, foreign trade self-run, farm-center jointly run bases.

The provincial office affirmed the rationality of the suggestions made by the corporation and independently organized payments for their implementation. By means of interest-deducted loans and compensatory trade, four intensive piggeries were newly built in Jinxian, Gao'an, Yushan, and Wannian, and three farm-trading company jointly run pig farms were newly built in Dongxiang and Tunsangchang. Now in the province there are 10 pig farms that can supply more than 5,000 pigs a year and 10 pig farms that can supply more than 3,000 pigs a year, forming an objective scope for the export of fine-breed pigs and thoroughly changing the passive situation in which there was a dependence on society's purchase of hogs. In addition, 2 million yuan were invested to import

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from other parts of China and from abroad a little over 16,000 (Deak) White, (?Changchun) White, Large Yorkshire, and Duroc fine-breed pigs. Old breeds, which had been consistently used for several decades, were completely eliminated. Every year 11,000 tons of refined feed at comprehensive prices are imported in complete sets, and scientific management has been strengthened.

All of this has made the proportion of exported fine-breed hogs rise sharply: in 1987 it was 22 percent, in 1988 it was 31 percent, and in 1989 it was 48.8 percent. Last year 170,000 hogs were supplied to Hong Kong, with the average price per hog increasing \$16.80; there was a net increase in the one-year selling price of nearly \$3 million.

**State Council Issues Notice on Organization Size**

90CM0232A Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese No 4,  
23 Mar 90 pp 118-119

["State Council Notice on Further Strengthening Management of Organizational Structure"]

[Text] All people's governments of provinces, autonomous regions, and municipalities directly under the central government; all ministries, commissions, and organizations subordinate to the State Council:

In the past several years the State Council has many times put forward the idea of strengthening management of organizational structures, including strictly controlling the growth of organizational structures, strictly enforcing the system of examining and approving organizational structures, allocating cadres firmly in line with the number of stipulated posts, as well as conscientiously inspecting and sorting out the cadres. However, the phenomenon of orders and prohibitions not being strictly enforced still exists, for example: The people's governments of some provinces, autonomous regions, and municipalities directly under the central government violate "the organization law of the PRC for local People's Congresses at all levels and for local people's governments at all levels" and the rules in the relevant documents of the party Central Committee and the State Council, and without authorization decide to establish departments, bureaus, and other organizations or to raise the organizational standard. Some departments violate the state's rule on the jurisdiction of management of organizational structures, and without authorization, by means of documents, minutes of meetings, speeches of leading cadres, and suggestions intervene in the setting up of local organizations. Doing these things not only further inflates the organizational structure and causes greater difficulties for reform of local organizations in the future, but also damages the serious nature of the state's laws and decrees, policies, and systems, and is detrimental to the conscientious, thorough implementation of the decisions of the party Central Committee and the State Council on further improvement and rectification and on changes and reforms. For this reason the State Council issues the following notice:

1. During the period of improvement and rectification, all areas and all departments must further strengthen management of organizational structures. They must strictly enforce the relevant provisions of "the organization law of the PRC for local People's Congresses at all levels and for local people's governments at all levels," do things in line with the provisions and decrees of the party Central Committee and the State Council on managing organizational structures, and truly enforce orders and prohibitions strictly. They must strictly control the setting up of additional organizations, the raising of organizational standards, the increase in the personnel structure and the number of leadership positions, and for

adjustments that really need to be made in setting up additional organizations, raising organization standards, and increasing the personnel structure and the number of leadership posts. They must strictly implement the procedures for examination and approval stipulated by the state. From now on, anything that is done not in accordance with the procedures for examination and approval not only must be resolutely corrected, but there also must be an investigation into the responsibility of the relevant leader, dealing with him sternly.

2. Before the central authorities make unified dispositions for the reform of local organizations, in setting up local organizations at all levels a relative stability should be maintained, and it is inadvisable to make fairly large adjustments; the total size of the personnel structure should be strictly controlled, and with the exception of special circumstances approved by the State Council, in general it is not to be increased again in order to avoid adding to the difficulties in carrying out the next step in organizational reform. Local governments at all levels must enhance their leadership over the organizational structure; must not violate state regulations by arbitrarily handling the problems of organizational structures; and, with regard to organizations which have already received approval for increases and departments which are actually below strength, the organizational structure must be adjusted and resolved using the total number of existing personnel. Governments cannot expand the organizational structure or add personnel in excess of the organizational structure on their own.

3. All departments of the State Council must, on the basis of organizational reform and in accordance with the demands for the party Central Committee and the State Council, go on to do the relevant work well, and must take the lead in abiding by discipline in the organizational structure; with regard to the setting up of organizations in the locality and the allocation of their personnel, a department must not, proceeding the needs of its own work, intervene by various ways, and even less must it make use of its own authority to divide money, divide materials, approve quotas, and approve items in order to exert influence on the locality. Local people's governments at all levels have the authority to reject this intervention.

4. All areas and all departments must get a tight grip on studying how to further strengthen the systems and means for managing organizational structures, and implement them really and thoroughly; must as soon as possible conscientiously inspect the situation in the past several years in managing the organizational structure, and when problems are found sort them out and rectify them in a timely manner, and they cannot allow the phenomenon of violating state regulations to exist. All violations of state regulations, unauthorized decisions to make adjustments by setting up additional organizations, raising organizational standards, and increasing the personnel structure and the number of leadership posts, as well as the setting up of organizations by departments with other interests, are without exception

invalid, and the principal leading comrades of the relevant areas and departments are responsible for promptly dealing with them carefully and skillfully. When dealing with them they must pay attention to seeing that the work that normally ought to be started is not adversely affected because of this, and, with regard to the work that

needs to be strengthened, effective measures should be taken to strengthen it. The relevant areas and departments must draw a lesson from all this, attach importance to it, and prevent the appearance of similar problems as well as other problems of violating the discipline for organizational structures.



**Changde Organizes Militia Rapid-Response Units**  
*90CM0243A Changsha HUNAN RIBAO in Chinese*  
*15 May 90 p 1*

[Article by Xie Rongde (6200 2837 1795), Zhu Xiaoming (2612 2556 2494), and Tian Zhengxiao (3944 2973 2699): "Changde Municipality Holds First Militia Fendui Emergency Response Review"]

[Text] In order to review the effectiveness of training received by the militia's emergency response fendui, as well as its rapid response capability, Changde Municipality held its first review of the militia's rapid-response fendui on the morning of 10 May. A total of 2,117 members of the militia's rapid response fendui and the municipal Armed Police zhidui were organized into 25 fangdai [2455 7130] and, with soaring fighting spirit and awe-inspiring military bearing, presented themselves for inspection by provincial and municipal leaders. Then, amidst rousing martial music, the various fangdai paraded along a five-kilometer route, displaying the militia's fighting spirit. People who lined the route said happily, "I feel much safer now that I've seen such a powerful militia."

The Changde Municipal party committee, the municipal government, and the military subdistrict, acting in accordance with the spirit of the party's instruction that "stability is the one task that takes precedence over all

others," made organization of the militia's rapid-response fendui a key part of the task of building up the peacetime national defense reserve forces. Funds and equipment were guaranteed for this project, plans for various operations were formulated, and 30 emergency-response fendui were set up in accordance with the characteristics of various urban districts and rural towns. Personnel were selected for the emergency-response fendui in accordance with recruiting requirements and procedures. They were gathered together at the People's Armed Forces Department for standardized military training and political education so they could acquire the necessary political qualifications and military skills.

Since they were established in this municipality last year, the emergency-response teams have assigned over 100,000 personnel to assist public security organs in "difficult, emergency, dangerous, and important" tasks, helping them to capture more than 400 lawbreakers. During this review of the emergency-response fendui, provincial Military District commander Wen Guoqing [2429 0948 1987] gave high marks to the militia emergency-response fendui in this municipality, saying, "This review was a complete success. They demonstrated excellent spirit and a high level of training, and they constitute a powerful deterrent to hostile forces." He called upon the broad masses of militia to play a key role in the construction of the two types of spiritual civilization and to make a contribution to local economic development.

## EAST REGION

### Anhui Promulgates Rules To Protect TV Facilities

*OW0607085090 Hefei Anhui Provincial Service  
in Mandarin 1000 GMT 30 Jun 90*

[From the "Provincial Hookup" program]

[Text] On 10 June, Governor Fu Xishou signed Order No. 15 of the Anhui Provincial People's Government promulgating detailed rules for implementing the Regulations of Anhui Province on Protecting Radio and Television Facilities.

The detailed rules have been set in accordance with the Regulations on Protecting Radio and Television Facilities that the State Council issued, and reflect our province's actual conditions. They have been set to safeguard such facilities in our province. The detailed rules clearly define the measures for safeguarding our province's radio and television facilities. Radio and television departments at various levels are required to protect radio and television facilities under their supervision. Public security, urban construction, and other relevant departments should assist and cooperate in this regard. The detailed rules also require people's governments at various levels to consider the protection of radio and television broadcasting installations when planning urban and rural development. In addition to compensating for losses, units or individuals who violate the State Council Regulations on Protecting Radio and Television Facilities and the detailed rules should be punished according to the gravity of their individual cases. Those involved in serious criminal cases should be investigated by judicial organs to determine their criminal responsibility.

The detailed rules, consisting of 14 articles, became effective on the day of promulgation.

### Fujian Province Issues 1990 Government Work Report

*90CM0270A Fuzhou FUJIAN RIBAO in Chinese  
5 May 90 pp 1-3*

[Article by Provincial Governor Wang Zhaoguo (3769 0340 0948): "Strengthen Confidence and Unite in Struggle To Advance Reform, Opening to the Outside World, and All Endeavors in Fujian—Government Work Report Delivered on 20 April 1990 to the Third Meeting of the Seventh Fujian Provincial People's Congress"]

[Text] Delegates:

On behalf of the provincial people's government, I now present the government work report to the congress for its examination and approval.

### Review of Government Work During 1989

The final year of the 1980's was an extraordinary year. Under leadership of the CPC Central Committee, the State Council, and the provincial CPC Committee, and with effective supervision from and the vigorous support of People's Congresses and their Standing Committees at all levels, all levels of government in the province persevered in taking economic construction as the key element, upheld the four basic principles, persisted in reform and opening to the outside world, and stood the severe political test of halting disturbances and quelling counterrevolutionary riots to maintain a stable political situation throughout the province. Economically, the province diligently carried out Central Committee policies for improving the economic environment and restructuring the economic order, for deepening reform, and for enlarging the opening to the outside world; and it strove to overcome difficulties accumulated over many years to maintain sustained and steady development of the national economy. During the past year, we devoted attention mostly to the following several major matters:

**1. A Clear-Cut Stand in Opposing and Halting Disturbances To Maintain a Stable Political Situation Throughout the Province.** As spring was turning into summer during 1989, an extremely small number of people capitalized on campus unrest to start a planned, organized, premeditated political disturbance in Beijing, which developed into a counterrevolutionary riot in Beijing. This disturbance also reverberated in Fujian Province where disturbances occurred in varying degrees in some cities such as Fuzhou and Xiamen. Acting under unified leadership of the provincial CPC Committee, all levels of government and all units throughout the province diligently studied the RENMIN RIBAO 26 April editorial and important speeches of leading comrades, resolutely supported a series of major policy decisions and measures adopted by the CPC Central Committee and the State Council, maintained a high degree of political, ideological, and action unanimity with the CPC Central Committee, resolutely opposed and halted the disturbances, and effectively controlled the development of events. Throughout the province, workers, peasants, and the broad masses of cadres stood fast at their posts and persevered in production. No ripples occurred in the economy. The broad masses of teaching personnel and workers on the education front remained steadfast and did a large amount of arduous and painstaking work. The broad masses of public security cadres and police, and the People's Armed Police stood in the front lines of the struggle, were devoted to duty, protected party and government organs and key departments, safeguarded the normal social order, and made important contributions in halting the disturbances and stabilizing the situation. PLA [People's Liberation Army] forces stationed in Fujian Province are a powerful backup force that resolutely supported our struggle to halt the disturbances. During this serious political struggle, a large number of progressive collectives and individuals who opposed and halted the disturbances came to the fore. This fully demonstrated that maintenance of tranquillity

and unity was the desire of the people, and that the broad masses of people supported the leadership of the Communist Party. After the disturbances were put down, we resolutely and diligently began the task of ferreting out and purifying, and we conducted socialist education. The people throughout the province more resolutely support Communist Party leadership and have more confidence in taking the socialist path.

**2. Efforts To Render a Good Performance in Improving the Economic Environment and Restructuring the Economic Order and Deepening the Reform Advanced Steady Development of the Economy.** A series of measures for improving the economic environment and restructuring the economic order taken primarily to restrain demand, increase effective supply, and readjust the economic structure showed fairly remarkable results. A policy of both retention and suppression of investment in fixed assets continued to be followed, the scale of investment being curtailed and key construction being strengthened. The total amount of credit was controlled, and the credit structure was readjusted for a turn for the better in the financial situation. The structure of industrial and transportation production was actively readjusted, and support was given to the development of large and medium-sized state-owned enterprises for both a reversal in the trend of economic overheating and maintenance of a certain speed of growth. Corporations were further overhauled and the chaotic situation existing in the commodity circulation area was brought under preliminary control. Firm attention was paid to shipments of grain and necessities used in the daily life of the people in an effort to increase effective supply and maintain market vigor. Restraints continued to be removed on commodities on which restraints had already been removed. Emphasis was placed on the monitoring of prices of 60 different commodities having a bearing on the national economy and the people's livelihood, and the degree of increase in the price index was markedly lower than during 1988. In addition, reform of the economic system continued to deepen, the focus being on improvement of the economic order and restructuring of the economic environment. New advances were scored in continued efforts to perfect the rural contract responsibility system, the enterprise contracting and planning systems, the investment system, and price system reform, as well as the housing system, the land-lease approval system, and the launching of staff and worker old-age insurance. The facts show the policy of improving the economic environment and restructuring the economic order, and of deepening reform that the Central Committee initiated to be entirely correct.

**3. Perseverance in Opening to the Outside World Advanced Development of an Externally Oriented Economy.** In the course of improving the economic environment and restructuring the economic order, we diligently carried out the special policies and flexible measures that the CPC Central Committee and the State Council conferred on our province. We made sure to open opportunities for ourselves, actively launching

external economic and technical cooperation and trade exchanges, particularly economic cooperation with Taiwan. Following State Council approval, a Taiwan businessman investment zone was set up in May 1989 in the Haicang and Xinglin districts of Xiamen, as well as in the Fuzhou economic and technical development zone, and work was done on the scale of construction there and on attracting business. After the disturbances were halted and the counterrevolutionary riots were quelled, obstruction was eliminated, external propaganda was intensified, external policies were stabilized, and external economic and technical exchanges and cooperation were actively developed for the safeguarding of Fujian's image in opening to the outside world. During September 1989, Fujian foreign trader investment and trade talks were successfully held at Xiamen. This was a task of extremely great significance in demolishing Western countries' sanctions against China. A new and bigger momentum of investment in Fujian Province by Taiwan, Overseas Chinese, and foreign traders is under way. Practice shows that adherence to the four basic principles and organically linking improvement of the economic environment and restructuring of the economic order to opening to the outside world is the road that must be followed for the invigoration of Fujian's economy and the development of social productivity.

**4. Energetic Buttressing of the Agricultural Foundation for Maintenance of Steady Development of Agriculture.** The entire province assiduously implemented CPC Central Committee and State Council decisions for winning a bumper harvest in agriculture, and it deepened understanding of the basic position of agriculture. A new situation emerged of strengthened leadership of agricultural production at all levels. Many jurisdictions instituted level-by-level goal responsibility systems for leaders during their period in office, as well as systems whereby various departments forged links with townships and villages to support agriculture. Rural reforms were actively deepened; family output-related contract responsibility systems were maintained and perfected; the two-tier operating system was perfected and developed; and rural service systems of all kinds began to be built at many levels. A southern collective forest region reform experiment was conducted at Sanming, giving rise to new advances in the building of forestry production. Investment in agriculture was increased; the masses were aroused to build water conservancy; marshlands were reclaimed for farmland; agricultural technology group contracting got underway; the internal and external climates for agricultural production throughout the province improved; a fine impetus such as has not occurred for many years appeared in the development of agriculture; and gross output of grain exceeded the all-time high to lay a foundation for steady development of the whole province's economy.

**5. Adherence to the Policy of "Gripping With Both Hands" [liang shou zhua 0357 2087 2119] in Further Intensification of the Building of Spiritual Civilization.**

Governments at all levels persevered in taking firm grip on the building of material civilization with one hand and taking firm grip on the building of spiritual civilization with the other, and they strove to overcome the situation of acting forcefully sometimes and weakly at others. A new favorable upturn appeared on the ideological and political front. Acting under the centralized direction of the provincial CPC Committee, we conducted widespread and thorough education in adherence to the four basic principles and opposition to bourgeois liberalization in cities and the countryside throughout the province, provided more education in socialist ideology and morality, and launched a campaign to build civilized cities, civilized townships and towns, civilized units, and civilized streets. Government at all levels did more work in building clean government. They launched a struggle against corruption that focused on graft and bribery, uncovering a number of important cases. The province's supervisory system handled a total of 5,063 cases involving violations of the law and discipline, placed 1,179 cases on file for investigation, and concluded 796 cases. At the same time, an all-out struggle was conducted to "eradicate pornography" and to uproot the "six evils" in a purification of the social environment for a preliminary containment of the spread of odious social problems. A severe crackdown was carried out against all forms of criminal and economic offenses, with more than 20,000 criminal cases of various kinds being broken for the safeguarding of social stability.

**6. Widespread Launching of a Campaign To Support the Army and Give Preferential Treatment to Families of Revolutionary Armymen and Martyrs for a Strengthening of Unity Between the Armed Forces and the Government, and Between the Armed Forces and the Populace.** The stable political situation and the sustained economic development in the province during 1989 are attributable to the concern and support given by Chinese PLA forces stationed in Fujian. Governments at all levels also did much work. They provided preferential policies for military units, provided convenient conditions, supported and encouraged troops in the development of production, and improved supply. A provincewide campaign to learn from the PLA, to ardently love the PLA, and to support the PLA, and various joint military and civilian campaigns were conducted. All the people were educated in national defense to further cement the ties between the armed forces and the government, and between the armed forces and the people during the new era. A large-scale campaign to salute old liberated areas was organized to further advance the flesh-and-blood relationship of the party and the government with the people in old liberated areas. We deeply feel that the armed forces and the government, and the armed forces and the people, dedicated heart and soul to the same cause, and working together form a solid foundation for Fujian's good performance of all government tasks.

During the complex events at home and abroad during 1989, the people of the whole province removed obstructions and worked as one to overcome serious difficulties,

making fairly marked progress in improving the economic environment and restructuring the economic order, in deepening reform, and in expanding the opening to the outside world. The national economy maintained a definite speed of growth, and all social endeavors developed further. The province's gross product reached 40.088 billion yuan for an 8.1 percent rise in terms of comparable prices. Provincial income reached 34.839 billion yuan, up 7.3 percent over 1988 at comparable prices.

Agriculture produced an all-around bumper harvest. Total grain output surpassed the all-time high, and the gross output value of the province's agriculture reached 20.992 billion yuan, up 6.5 percent over 1988 in comparable price terms. Gross output of grain for the year reached 88.457 billion yuan, up 8.1 percent. Developmental agriculture and economic diversification saw sustained development, and marked achievements were made in afforestation and greening. The gross output value of township and town enterprises was 22.196 billion yuan, a 22-percent increase over 1988. New achievements were scored in the building of old liberated areas and in escaping from poverty.

Industry maintained a certain speed of growth, and the first steps were taken to readjust the product mix. The province's gross industrial output value was 47.869 billion yuan, up 15.2 percent over 1988 in comparable price terms. Output of raw and processed material products, industrial wares for the support of agriculture, and daily necessities continued to increase. Output of some products of not very high technology and not very good quality declined markedly. More than 1,400 new products were launched. Communications and transportation improved further; posts and telecommunications saw new advances; and telephone service was automated in all of the province's cities and county seats.

Foreign trade and economic and technical exchanges continued to develop. The province's foreign trade exports totaled \$1.66 billion, up 18.2 percent from 1988. A total of 872 new contracts for the use of capital were signed, up 7 percent; and agreements were signed for the use of \$961 million in foreign capital, up 53.8 percent. Foreign capital actually used totaled \$391 million, a 35.4-percent increase. A fine momentum was maintained in the absorption of Taiwan capital—new contracts for the use of Taiwan capital in the province totaled 259 and \$540 million. This represented a 43.9-percent increase in the number of contacts signed, and a 3.8-fold increase in the value of the contracts. Economic returns were good from most of the more than 1,400 three kinds of partially or wholly foreign-owned enterprises that have gone into production throughout the province, more than 100 of them making an additional investment of nearly \$100 million. Newly signed agreements for the contracting of foreign projects and for labor cooperation totaled \$186 million in value, up 13.5 percent. Despite the difficulties in international tourism, foreign exchange revenues from tourism still increased 9.2 percent. New advances were made in Overseas

Chinese affairs work, with marked achievements made in customs and commercial inspections by way of developing the province's endeavors in opening to the outside world.

Government financial revenues increased, and marked accomplishments were made in revenue and auditing work. The province had financial revenues totaling 5.16 billion yuan, up 28.5 percent from 1988. Government expenditures totaled 5.69 billion yuan, up 20.9 percent. With the addition of central government subsidies, the province achieved a balanced budget for the year with a slight surplus.

Marked upturn in the financial situation. As of the end of 1989 savings in financial institutions throughout the province showed a cumulative increase of 5.075 billion yuan, promoting a trend toward monetary stability. The scale of credit was brought under control, loans for all purposes totaled 4.808 billion yuan, and crucial needs for funds were met. The net amount of currency removed from circulation totaled 1.669 billion yuan, 2.6 billion yuan more than during 1988, for an improvement in the too large amount of currency in circulation. Substantial advances were made in insurance, the total amount of coverage increasing 33.6 percent over 1988, and providing support for reform, opening to the outside world, and economic construction.

The scale of investment in fixed assets was curtailed. Construction was halted or slowed in curtailment of the scale of construction on 920 projects under construction throughout the province. This was a cutback in investment of 1.647 billion yuan, or 14 percent of the total amount invested in construction under way. After deducting the amount of investment completed, the actual cutback in investment over the next several years will be 1.009 billion yuan. Cutbacks were made in the construction of 152 office buildings, meeting halls, public accommodations, and nonproductive buildings, which accounted for 50 percent of the total number of projects liquidated. The number of capital construction projects under way and the number of projects newly begun was markedly less than in 1988. Investment in fixed assets owned by the whole people totaled 5.064 billion yuan, a 5.7-percent decrease from 1988. This included a 3.4 billion yuan investment in capital construction, down 9.4 percent. Key construction projects moved ahead smoothly, with eight key or large and medium-sized projects being completed and going into production on time. More basic urban facilities were built.

Definite achievements were made in the overhauling of corporations, and the commodity circulation order improved as a result. A total of 2,500 companies in the province have been closed or merged, or are being prepared for closure or merger following overhauling. This is 26.5 percent of the total number checked. The headlong development of companies in the commodity circulation field was brought under control. A total of 1,770 cadres in party and government organs throughout

the province (including retired cadres) holding concurrent positions in companies (or enterprises) resigned one or the other position. This was 93.5 percent of all cadres holding concurrent positions, for virtual solution to the problem of party and government organs and party and government cadres operating businesses and running enterprises, and cadres holding concurrent positions in companies. In the overhauling of companies, a total of 1,356 cases of violations of the law or discipline were found, 481 of them large or important cases. Tax collection, audit, financial, and price investigations throughout the province uncovered 390 million yuan in violations of discipline.

Market supply increased; the rate of increase in the price index declined markedly; and the people's standard of living continued to improve. Social commodity retail sales for the province as a whole totaled 22.702 billion yuan, up 16.7 percent from 1988. Sources of supply of daily necessities and principle nonstaple foods were ample. Social group consumption declined. The rate of increase in the overall price index for the year began to decline month by month in March, and averaged 18.8 percent for the year, or 7.7 percentage points less than for 1988. City and town per capita annual income available for living expenditures was 1,398 yuan, 25.9 percent more than in 1988. Peasant per capita net annual income was 697 yuan, up 13.7 percent. Social welfare endeavors also saw new development.

Further development of scientific, educational, cultural, and medical activities occurred. In 1989, Fujian Province won two national awards for invention, five scientific and technical progress awards, four spark awards, two natural science awards, and 123 provincial government-approved scientific and technical awards of various kinds. In education, new achievements were made in improving basic education and school ideological and political work, improving schooling conditions, raising teachers' pay and benefits, and in reestablishing campus order. Cultural activities maintained vigorous development during the campaign for the elimination of pornography. All jurisdictions in the province successfully held a culture and arts festival, which enriched the cultural life of the masses. New advances were made in public health reform. Medical treatment, prophylaxis, and health care capabilities increased, and the public's problems with obtaining medical treatment eased. Newspapers, radio broadcasts, movies, and television promptly reflected the situation regarding Fujian's reform and opening to the outside world, economic construction, and social development, and they contributed greatly to the outside world's understanding of Fujian. New achievements were made in publishing and in physical education. New achievements were also made in the fields of civil government, nationalities, religion, militia, and civil defense, as well as in government and legal system work.

The province's achievements in all regards during 1989 were hard won. They were the result of the people of the

whole country working together wholeheartedly, overcoming difficulties, and struggling arduously. In this connection, on behalf of the provincial people's government, I express high respect and heartfelt gratitude to all the workers, peasants, intellectuals, and people from all walks of life who fought on all fronts, to the Chinese PLA forces stationed in Fujian, the People's Armed Police contingents and the public security cadres and police who made active contributions to the province's stability and economic construction, and to the Overseas Chinese abroad, compatriots in Hong Kong and Macao, and compatriots in Taiwan who showed concern for and supported the province's construction!

Delegates! All in all, the province's political and economic situation was good in 1989. We must clearly realize, however, that some problems and difficulties remain.

One is the unsoundness of the macroeconomic regulation system whose regulation and control capabilities are weak. Although the contradiction between a total social demand that is greater than total supply is gradually easing as a result of the improvement of the economic environment and the restructuring of the economic order, nevertheless, some factors producing currency inflation have not been completely eradicated. While improving the economic environment and restructuring the economic order, a market sales slump occurred. Products piled up in inventory, and some enterprises halted or semi-halted production. Old and new contradictions overlap to add to the seriousness of problems and difficulties, and to make solution to problems and the surmounting of difficulties more daunting and more complex.

A second problem is the fairly prominent contradictions in the economic structure and poor economic returns. Agriculture, basic industries, and basic facilities do not meet requirements for economic construction and development of the people's livelihood. Inputs into agricultural production are insufficient; overall production capacity increases only slowly; the commodity rate is not high; population is growing too rapidly, the amount of cultivated land is declining sharply, and the conflict between a large population and relatively little land is becoming increasingly prominent. Industrial comparable product costs remain high and show no sign of falling, and enterprise losses are increasing.

A third problem is numerous rough spots in foreign economic relations and foreign trade work. Further improvement of the investment climate is awaited. In foreign trade, the business environment is fairly chaotic and quality of some export commodities has declined. Export commodity procurement prices are high, making up losses is difficult, and the export of some staple commodities has run into difficulties. In the area of using foreign capital, difficulties in supplying matching funds has impaired implementation of foreign trader investment projects. In some places, the system for examining and approving foreign trader investment

projects is insufficiently well developed, and neither services nor associated administrative work are keeping pace.

A fourth problem is no marked upturn in the social order situation. Economic crimes and criminal activities occur constantly. Basic grassroots-level work on social order is still weak. Crackdowns are not sufficiently dovetailed with prevention, control, and organization. Some unstable factors remain throughout social order.

A fifth problem is that the building of spiritual civilization requires further work. Some places and units do not give sufficiently serious attention to the building of spiritual civilization and fail to take sufficiently vigorous action. More must be done to eradicate the effects of the bourgeois liberalization trend of thought, and some odious social phenomena have yet to be eliminated.

A sixth problem is that more work must be done in the building of clean government. Despite certain achievements made in building clean government during 1989, there is still a long way to go to meet the requirements raised by the Fourth Plenary Session of the 13th party Central Committee, and the expectations of the masses of people. Bureaucratism, formalism, commandism, and ultra-individualism, as well as abuse of official position for private gain, and other such negative and corrupt phenomena exist in some organs and among some cadres that have not yet been vigorously investigated, punished, and overcome.

Some of these problems and difficulties have accumulated over the years, and some are longstanding contradictions that have surfaced under new conditions, and because we have not done a sufficiently thorough, sufficiently painstaking, and sufficiently vigorous job. We are now taking a positive attitude in an effort to solve them during the new year.

#### Government Work Tasks for 1990

The 1990's will be an important period for the building of Fujian, and it will also be a period in which the people of Fujian can show their talents to the full. The trend of development both domestically and abroad today is extremely favorable for Fujian's future economic development. The groundwork laid during the previous 11 years of reform and opening to the outside world will continue to play a greater role in the building of socialism. Therefore, during the 1990's, the face of the entire province will undergo major changes. The economy will develop more rapidly than during the 1980's, and total economic output will increase markedly. The economic structure will be greatly readjusted, and the backward state of agriculture, basic industries, and basic facilities will improve markedly and become stronger. There will be greater development of foreign economic relations and trade, particularly in economic relations and trade with Taiwan, and Taiwan traders building of the investment zone. The building of special economic zones, development zones, and open zones

will enter a new stage. Science and technology, education, culture, and health activities will develop and improve substantially. The strategic goal of quadrupling the gross national product will be realized, and the people's standard of living will reach the comparatively well-off level. People's spiritual demeanor and social ethics will also reach new heights as socialism requires.

This is the first year of the 1990's. Good performance in all endeavors this year holds important significance for the building of Fujian's economy, and for reform and opening to the outside world during the 1990's. In accordance with the spirit of the Fourth, Fifth, and Sixth Plenary Sessions of the 13th party Central Committee, the overall guiding ideology for the government work report in 1990 is as follows: Unswerving implementation of the party's basic line during the initial stage of socialism, maintenance of a single center and two basic points, adhering to improving the economic environment and restructuring the economic order, mobilizing all positive factors, rallying spirits, overcoming difficulties, maintaining political, economic, and social stability, continuing to advance reform and opening to the outside world and all endeavors in Fujian, and promotion of the sustained, steady, and coordinated development of the national economy. Plan requirements for the province are as follows: A gross provincial product for the year that is six percent higher than in 1989, a four-percent rise in the gross output value of agriculture, a more than 250,000-ton increase in grain output, an eight-percent increase in gross industrial output value, a 7.4-percent rise in government revenues, an eight-percent increase in foreign trade exports, holding the rate of increase in retail prices below 15.1 percent, and striving to hold the natural rate of population increase to 11.33 per 1,000. New advances should be made in the building of spiritual civilization.

Realization of the foregoing objectives will require that all levels of government perform the following 10 tasks during 1990:

**1. Continued Strengthening of the Agricultural Foundation, Promoting the All-Around Development of Farming, Forestry, Animal Husbandry, Sideline Occupations, and Fisheries**

Agricultural problems have a bearing on the overall national economy, and on political and economic stability. Governments at all levels must give first place to agriculture in economic work, and concentrate their energies on doing a good job of it.

Ensuring steady increases in grain output and hastening the overall development of agriculture requires continued attention to the building of grain system projects in an effort to attain a gross output of 10 billion kilograms of grain by 1995. All measures to increase grain yields, to stabilize grain procurement and marketing policies, and to stabilize the amount of land sown to grain must be put in place. Places having requisite conditions should actively reclaim marsh wastelands for

farming. The emphasis during 1990 should be on marshlands that have been reclaimed but have not yet been developed, and the development of abandoned lands. The transformation of medium- and low-yield fields is to be accelerated, efforts continued on both paddy fields and dry land; output of major grain crops, miscellaneous grain crops, and livestock fodder crops increased; and an overall steady increase in grain crops ensured. Major efforts are to be made in the development of forestry, more is to be done to build forestry bases. A good job is to be done in "357" greening projects, efforts are to be made to increase afforestation quality, and more is to be done to halt access to mountains in order to grow forests and to prevent fires in dense forests. General methods should be suited to specific circumstances for the development of cash crops; "market-basket projects" are to be continued; and vigorous efforts are to be made to develop meat, poultry, egg, and milk production, as well as the production of aquatic products. Earnest efforts are to be made to control erosion, to improve the production environment and the investment climate, and to create wealth for posterity. More work is to be done on meteorology and hydrology to improve forecasting and early warning.

Increased emphasis on agricultural research and the spread of techniques. Governments at all levels are to seize the opportunity of 1990 being a year for the spread of agricultural science and technology throughout the country, hastening the spread of a number of applied scientific and technical achievements in agriculture that require the spending of little money, produce marked yield increases, affect a wide area, and show quick results. They should put agricultural technology promotion networks on a sound footing and continue to push agricultural science and technology group contracting. They should do more in the way of providing scientific and technical demonstrations in townships and towns, and improve the training of peasants in science and technology. More scientific and technical personnel should be mobilized to go to the front line of agriculture, and key agricultural scientific and technical forces should be organized to carry out concerted attacks on difficult problems to prepare the way for sustained development of agriculture. A good job is to be done in studying basic agricultural theory and applied theory, and more done in the way of introducing new agricultural techniques, and in the breeding, testing, demonstration, and promotion of products. Work conditions and the pay and benefits of agricultural science and technology personnel are to continue to be improved.

Efforts are to be made to increase inputs to improve the material and technical conditions for the development of agriculture. In places where it does not already exist, an agricultural development fund system must be completely established within the year. All jurisdictions are to resolutely implement the decision of the provincial CPC Committee and the provincial government about designating for use in agriculture 10 percent of the amount of annual increase in provincial and local government revenues. Full use is to be made of the leading



role of township and village collectives, and of the peasant masses in investing in agriculture. The collective withholding system and the labor accumulation system used by township and village cooperative organizations should be amplified, and guidance should be provided the peasants in the correct handling of the relationship between accumulation and consumption in order to increase investment in agriculture. More farmland water conservancy should be built, the transformation and improvement of existing water conservancy facilities should be used as a foundation for the development of a number of new water conservancy development projects. Industries in the province that produce goods for agricultural use should be developed in a planned way, and priority given in the supply of funds, energy, and raw and processed materials to those that produce chemical fertilizer, agricultural pesticides, agricultural plastic sheeting, and farm machinery.

All trade and industries are to support agriculture vigorously and create a fine environment for the development of agriculture. All government departments, particularly those concerned with finance and banking, materials planning, commercial supply and marketing, foreign grain trade, and industrial and commercial taxation are to draw up plans and actions for providing support to agriculture, and do several concrete deeds for the development of agriculture. All departments in provincial, prefectural, municipal, and county government organs are to set up agricultural support work contact point systems to serve the development of agriculture. Diligent efforts are to be made to reduce peasants' social burdens, and to ensure increased peasant output and earnings. Except for the various necessary central government and provincial government stipulated or approved fees collected from peasants, no department or unit may arbitrarily collect fees, make exactions, or raise funds under any pretext whatsoever.

Active support and correct guidance is to continue to be given for the sound development of township and town enterprises. The policy of "restructuring, readjustment, transformation, and improvement" is to be diligently implemented, and improving the economic environment and restructuring the economic order is to be conscientiously carried out. Warm support and encouragement of development should be given to those enterprises that produce good returns in keeping with national industrial policies. Increased support should be given particularly to externally oriented enterprises such as foreign exchange earning enterprises engaged in the three forms of import processing and compensation trade, and those that help the needy. Foreign business joint ventures and cooperative transformation of township and town enterprises are to be encouraged to improve product quality and grade. General methods should be suited to specific circumstances for the development of township and village collective enterprises. Township and town enterprises should further improve management and administration and operating styles, improve technical quality, improve product quality and economic returns, and improve their competitiveness.

Continued support is to be given to the building of old liberated areas, minority areas, border regions, and island areas, attention being given to helping the needy. Emphasis should be placed on supporting the development of education, health and sanitation, communications, and energy to help improve production and living conditions. Existing policies to help the needy are to be continued. Funds and materials used to help the needy need not be reduced, but funds and materials to help the needy should be managed and used well, applied in a planned way for specifically approved projects, and used in a concentrated way to improve returns from the investment of funds and materials. The system whereby provincial, prefectural, and county support for the needy is linked together is to be continued. Leaders at all levels and departments concerned are to make regular trips to needy areas to gain an understanding of the situation and to help the masses dispel worries and solve problems.

## **2. Emphasis on Structural Readjustments and Increased Returns in an Effort To Maintain Suitable Growth of Industrial Production**

All jurisdictions and all government departments must take strong action to strengthen leadership of industrial production and painstakingly organize and improve management in an effort to overcome current difficulties in industrial production as a basic way to maintain a suitable increase in industrial production. In the rational readjustment of the economic structure and the improvement of economic returns, all jurisdictions and department must subordinate themselves to the provincial government's overall plan for readjustment of the industrial structure, concentrating their financial, material, and manpower resources to provide support. They should seize the opportunity that the present market sales slump provides to hasten the pace of readjustment of the product mix. Products that the market demands must be produced to the full. While developing production of hot-selling and staple commodities, major efforts should be devoted to research and development to produce new products and new varieties in order to steadily upgrade products. Vigorous encouragement and support should be given to the development of externally oriented enterprises. The organizational structure of enterprises should continue to be optimized, and active efforts made to form enterprise blocs in which name-brand premium-quality products serve as talismans for sales, and large and medium-sized key enterprises serve as mainstays. Insofar as industrial policy guidance permits, those enterprises that produce and sell well, and that have high returns should be encouraged to merge with those enterprises whose contracted products have no markets and whose returns are poor.

The working class is to be relied on wholeheartedly, a suggestion campaign launched among all staff members and workers. A "double-increase and double-economy" campaign should be conducted in breadth and in depth in an effort to improve economic returns. Lowering consumption should be the main aim, and a strict system of rewards and penalties should be instituted. A good job

should be done in the use of raw and processed materials in multiple ways, and fine processing and deep processing of products should be done. Plants should be tightly run; all plant basic work and regulation systems for administration and management should be perfected; leaks should be plugged, costs lowered, and product quality improved. The production and sale of fake and spurious commodities and uncertified products is to be strictly prohibited in order to protect consumers' interests.

More is to be done in the field of importing technology and technical transformation, major efforts made to advance technological progress in enterprises. An enterprise technical transformation plan for the Eighth 5-Year Plan period is to be drawn up that is consistent with the readjustment orientation of the province's industrial structure, emphasis being placed on the transformation of energy, transportation, communications, and key raw and processed materials industries. One hundred large and medium-sized key enterprises and "hot-selling" products, as well as a number of key techniques are to be selected as main objects for the province's Eighth 5-Year Plan period technical transformation. All energies are to be concentrated on the implementation of tilt policies to impel these enterprises to move up one step technologically. Active support is also to be given to medium-sized and small enterprises that are in keeping with industrial policy and that produce good returns. Energetic efforts are to be made to use foreign capital and Taiwan capital in the transformation of existing enterprises for a marriage of Chinese and foreign technology, capital, and markets. All jurisdictions and all departments are to find funds and foreign exchange to support enterprises in their importation of technology and their technical transformation. Examination and approval methods for the importation of technology are to be further perfected. Improvements are to be made in the digestion, assimilation, and sinicization of imported technology. Internal technical progress mechanisms should be established and perfected to enable enterprises better use of their own funds for technical transformation, gradually entering to a benign cycle of self-accumulation, self-transformation, and self-development.

Energetic improvement of leadership and management of industrial production. Production and management in key enterprises and of key products should be done well to ensure regular production operations. Continued attention should be given to supplying coal and electric power. The principle of "ensuring key points and looking after things in general" is to be followed with regard to transportation, ensuring the shipment of key materials such as grain, coal, chemical fertilizer, petroleum, and the principal staple raw and processed materials used in production. In the posts and telecommunications field, projects to increase the capacity of urban telephone systems and the building of long-distance communications should be further accelerated, and efforts should be made to improve the backward rural telephone system, the better to serve economic construction and opening to

the outside world. More should be done in the implementation of responsibility systems for safety in production, and to improve safety controls. Cooperation and coordination between industry and commerce, and between industry and trade should be improved to promote product sales, and to give impetus to the development of production.

### **3. Make the Most of Strengths and Seize Opportunities To Raise the Opening to the Outside World to a New Level**

Fujian Province faces Taiwan and is close to both Hong Kong and Macao. Numerous Overseas Chinese live there. Historically, whenever it enjoyed lively contacts with the outside world its economy flourished, and whenever it was locked up in isolation its economy flagged. Fujian has known prosperous times. Quanzhou was famed as "the finest port in the Orient," and the starting point for the "ocean silk road." It is only in recent times that, for various reasons, Fujian has been in a basically isolated state in which the economy did not develop very rapidly. Following the Third Plenary Session of the 11th party Central Committee, the Central Committee conferred on Fujian a special policy and flexible measures for external economic activities. It served as an overall testing ground for reform and opening to the outside world, which enabled its economy to develop with unprecedented vigor and vitality. We are determined to carry into effect the instructions of Comrades Jiang Zemin and Li Peng during their inspection of Fujian, organically link improvement of the economic environment and restructuring of the economic order with the opening to the outside world, stabilizing and perfecting policy measures for opening to the outside world, making the most of Fujian's strengths and favorable conditions, rendering a better performance in opening to the outside world, doing a good job of running the overall test area for reform and opening to the outside world, and actively, deftly, and freely advancing the development of the province's external economic relations and trade.

The province is currently making very good use of foreign capital, and a new situation has also come about in the development of economic relations and trade between Fujian and Taiwan. We must not lose the opportunity to expand the use of foreign capital and to intensify economic and technical exchanges and cooperation with the outside world. We must do more to build basic facilities, and to frame laws, rules, and regulations and systems having a bearing on the outside world, further improve the investment climate, and strive to create good conditions for foreign traders to invest in Fujian. We must improve economic relations and trade cooperation between Fujian and Taiwan, link the assimilation of Taiwan capital with Fujian's Eighth 5-Year Plan, and readjust the industrial structure to shape a new export pattern. We must further implement preferential policies from the Central Committee and the State Council encouraging Taiwan compatriots' investment, provide legal guarantees for investment, accelerate the

construction of associated basic facilities in the Taiwan business investment zone, actively devote attention to finding the personnel, capital, and technology for the large-scale Taiwan-capitalized projects now being discussed, and perfect the climate for investment in plant operations as quickly as possible. While doing a good job on large projects, we should continue actively to take in medium-sized and small projects. We should continue to welcome Taiwan businessmen's operation of "three basics" projects and both technology-intensive and capital-intensive industries, and develop both technologically advanced and "both ends abroad" foreign exchange-earning export enterprises [that is, enterprises that begin and end the production process on the international market, importing raw materials and exporting finished products]. We should encourage Taiwan businessmen to "graft" the transformation or contract the leasing of old enterprises. They may also establish product cooperation and associated relationships with state-owned and collective enterprises in the province for common expansion of exports to earn foreign exchange. We should encourage Taiwan businessmen to operate more sole proprietorships and to expand the percentage of Taiwan capital in joint ventures and cooperative projects. At the same time, we should expand the assimilation of investments of Overseas Chinese businessmen, Hong Kong businessmen, and foreign businessmen traveling to Fujian, and make active use of preferential credits from foreign governments and international financial organizations to further the rational restructuring of the province's industrial structure, and the rapid development of developmental agriculture, basic facilities, and basic industries. We should earnestly and conscientiously carrying out state regulations and policies pertaining to the use of foreign capital to do a solid job of operating the existing three kinds of partially or wholly foreign-owned enterprises. Departments concerned should exercise their particular functions with regard to difficulties and problems existing in the three kinds of partially or wholly foreign-owned enterprises, coordinate closely with each other, and genuinely help solve them. Summarization of practical experiences during the past 10 years in the use of foreign capital should be used as a basis for establishing and perfecting associated service systems for the three kinds of partially or foreign own enterprises.

Efforts to expand foreign trade exports. The building of foreign trade commodity bases is to be actively nurtured and developed to build a production and operating mechanism in which industry and trade are integrated, that benefits both, and in which both bear risks to ensure that the production for export of key products and staple products continues to develop. Strict inspections of export commodity quality are to be performed to ensure the quality of export wares. Foreign trade commodity circulation procedures are to be rectified in accordance with the "active, deft, and free" [jiji wentuo, fangshou 4480 2817 4489 1185 2397 2087] policy. Export of finished industrial products such as light and textile industry manufactures, as well as of highly processed and

high-technology products is to be actively expanded to upgrade export wares. More must be done in the way of investigating and studying commercial information and doing market forecasting, in order to develop the export of nonquota commodities, to develop new international markets, to perfect retail sales networks, and to render after-sales services to expand foreign trade. Active development of the three forms of import processing and compensation trade, and trade with Taiwan should be continued. Retained foreign exchange earnings should be used well and flexibly for the planned import of needed commodities such as raw and supplementary materials to expedite export production, using imports to nurture exports, and using imports to stimulate exports in the building of a benign cycle import-export mechanism.

Good performance should continue in the building of special economic zones, open cities, development zones, open zones, and Taiwan trader investment zones to make the most of the role of the province's multilevel pattern of opening to the outside world. The Xiamen Special Economic Zone should accelerate development of its high-technology industrial park, and the building of basic facilities associated with the Taiwan trader investment zone. It should formulate and perfect as quickly as possibly management methods and policy regulations having the force of law to ensure the smooth building of science and technology industries and Taiwan trader investment projects. The Fuzhou open city should accelerate the importation and assimilation of foreign capital and Taiwan capital. The Fuzhou economic and technical development zone should direct attention to the building of projects using foreign capital, and do more to bring in new projects and new technologies. It should do a good job of building the science and engineering park, and extension of the Taiwan trader investment zone. Preparatory work should be done on early stage plans, implementation methods, and administrative methods for the Rongqiao industrial zone, and the Dongshan development zone. In the coastal economic open zone, the economic structure and the industrial structure should be readjusted as their individual characteristics and strengths require, thereby improving their overall functioning and making use of their role as hubs. The Meizhou Island tourism economic zone for opening to the outside world should concentrate energies to do a good job of constructing basic facilities, improving management, and attracting more Taiwan compatriots and international tourists. Shishi City should develop and perfect the role of new systems and functions, and explore new ways for healthy development of Overseas Chinese villages in China. In addition, the relationship between development of the coastal region economy and the inland economy should be handled well, attention going to inland economic construction to advance development of the whole province's economy.

Active and effective development of international economic and technical cooperation. Improvement and expansion of the contracting of foreign projects and

labor cooperation is to be continued. Firm hold should be taken on the overhauling of enterprises abroad, building and perfecting as rapidly as possible management methods for enterprises abroad, and doing a good job of running enterprises abroad.

Continued good performance of Overseas Chinese affairs work. Contacts with Overseas China abroad and Chinese with foreign citizenship are to be intensified, a good job continued to be done in the implementation of Overseas Chinese affairs policies, and Overseas Chinese affairs legislation speeded up to protect the legal rights and interests of Overseas Chinese, Overseas Chinese returning to China, and the dependents of Overseas Chinese. Active efforts should be made to attract Overseas Chinese capital, technology, and talented personnel to serve in the building of Fujian's economy. In particular, control over public welfare enterprises operated through Overseas Chinese subscription is to be further intensified to advance the all-around development of the building of material and spiritual civilization in Overseas Chinese villages in the province.

Vigorous development of tourism. More should be done to tap the province's tourism resources, to improve the building of tourism facilities and scenic tourist sites, to improve tourist transportation, and to improve the quality of service to make the province's international tourism business flourish.

#### **4. Continued Control of Overall Social Demand and Efforts To Do Good Government Financial Work**

The scale of investment is to continue to be rigorously controlled, with energies concentrated on support for key construction. The principle of both curtailing and retaining is to continue to be implemented; control of investment demand is to be organically linked to readjustment of the economic structure, while the percentage of investment in agriculture, basic industries, and basic facilities, as well as the percentage of investment in technical transportation is to be moderately increased. The building of run-of-the-mill processing industries is to continue to be curtailed; no new office buildings, meeting halls, and public accommodations are to be built; and financial and material resources are to be concentrated on the building of 14 key projects provided for in the province's 1990 plan. Emphasis is to be placed on investment contracting, control standards, and the prevention of waste. All jurisdictions and all departments are to cooperate to the full and coordinate closely to ensure that the construction of key projects moves along smoothly. Control over collective individual investment is to be intensified, active efforts are to be made to attract investment in products and industries whose development the state encourages.

Energetic launching of a campaign to increase income and reduce expenses, improving government's macroeconomic regulation and control capabilities. This is a year of rather straitened financial circumstances when

the foreign debt will enter a peak period for the repayment of both capital and interest. The state will concentrate some of its financial resources, but there are other factors causing an increase in expenditures and a decrease in income. Therefore, it is necessary to establish a psychology of arduous struggle, thrift, and hard work in building the country, and several years of belt-tightening; to vigorously launch a campaign to increase production and practice thrift, and to increase income and reduce expenses. Financial sources must be broadened, and government financial revenues vigorously marshaled. Tax collection and control must be intensified, the tax code and tax collection policies rigorously enforced, the law employed to compel tax payments, and violations of the law such as tax evasion, tax cheating, and refusal to pay taxes severely punished. Government financial payments are to be made with an eye to receipts, and strictly planned to effect a balance between receipts and expenditures for a balanced budget. During 1990, except for state-authorized increases in expenditures of a policy nature for the support of agriculture, culture and education, health, and the on-time repayment of domestic and foreign debt, all other expenditures are, in principle, to be cut five percent from 1989, and all belt-tightening measures are to be put in place. Strict control is to continue to be exercised over government organizations and staffing. The purchasing power of social groups is to continue to be controlled. The use of public funds for entertainment and gift-giving, and recreational travel at government expense are strictly prohibited. The indiscriminate issuance of bonus funds or materials is strictly prohibited, and control and supervision of wage funds are to be genuinely intensified. Financial resources should be properly concentrated to increase the provincial government's macroeconomic regulation and control capabilities. Control over state-owned assets should be increased, and the state-owned economy should be consolidated and developed.

Increase in financial macroregulation and control, and improvement of returns from the use of funds. Active efforts should be made to organize savings as a means of expanding the source of funds. Credit should be apportioned rationally in accordance with national policies and realities in the province, timely readjustments made to achieve the right degree of loosening and tightening, tightening done elastically in order to support the proper degree of economic growth and to expand the opening to the outside world. Measures should be adopted in many regards to gradually increase the percentage of funds that enterprises themselves provide. All loans should be diligently gone over, funds potential tapped, and the turnover of funds accelerated. Enterprises should continue to be helped in inventorying warehouses to tap potential, to dispose of goods that have accumulated in inventory, to clear up debt payment arrears, and solve the "triangular debt" problem in order to ease the shortage of circulating funds in enterprises. Further work should be done in straightening out the financial order, examining non-banking financial institutions, placing bank operating

mechanism on a sound footing, and improving settlement methods to hasten the turnover of funds. Financial markets should continue to be developed and perfected; active efforts made to develop short-term financing, a good job done in the issuance of negotiable securities and in the transfer and foreign exchange allocation markets. More control should be exercised over foreign exchange and foreign debt; foreign debts should be repaid with interest on time in order to maintain the province's faith and credibility abroad. Insurance coverage should continue to be expanded in an effort to enlarge personal insurance business inside China and for foreign nationals.

#### **5. Continued Deepening of Economic System Reform; Improvement of the Macroeconomic Control System**

Improvement of the economic system and restructuring of the economic environment, and the deepening of reform complement each other. They must be done in conjunction with each other. The focus in the deepening of reform during 1990 should be placed on stabilizing, fleshing out, readjusting, and improving the reform measures of the past several years, the better to serve both improvement of the economic environment and restructuring of the economic order, and the building of the economy. In addition, pilot projects for reform should continue to be operated to meet the needs of reform and opening-to-the-outside-world test areas.

The enterprise contracted operation responsibility system should be further perfected. Contract agreements should continue in force for enterprises whose contracts have not yet expired. For those whose contracts have expired or are about to expire, work should be done to dovetail previous and subsequent contracting. Further work should be done to improve standards for assessing contract agreements; the rights, interests, obligations, and responsibilities of both parties to contracts should be spelled out so that they will not turn in a minimum, short-term performance. Methods for linking wages to economic returns should be perfected, both to stir the enthusiasm of staff and workers and to control the too-rapid growth of consumption funds. The "Enterprise Law" is to be enforced to the full, and the plant manager responsibility system constantly improved. In addition, more should be done to build the party organization in enterprises and to make fullest use of the ideological and political leadership role of the party organization. The role of worker congresses and trade unions in enterprises should be given free rein. Associated reforms within enterprises should be deepened and internal operating responsibility systems further improved. A good job should continue to be done in running small state-owned industrial and commercial enterprises under lease. Pilot projects for the apportionment of taxes and profits and the stock share system should be actively and deftly promoted.

The stability and continuity of basic rural economic policies must be maintained. Family output-related contract responsibility systems should be upheld and

improved; the two-tier operating system should be perfected and developed; rural cooperative economic organizations should be put on a sounder footing; and the collective economy should be developed and strengthened. Production science and technology, and supply and marketing service systems should be founded and improved. Places with requisite conditions may actively and carefully promote operations on a moderate scale in accordance with the principle of the voluntary participation of the masses. Forest region reform experiments and the Dongshan foreign exchange-earning agricultural experimental region should use perfection of the results of reform as a basis for gradually moving ahead further.

Foreign trade system reform should be done in accordance with the requirements of "responsibility for one's own gains and losses, free operations, industry and trade working together, promotion of the agent system, and a unified policy toward the outside world." The province's reform measures of "two-tier contracting, contracting with enterprises, and maintenance of administrative lines of division between central government and local governments" should be further improved. The province should assemble some foreign exchange to improve provincial debt repayment capabilities; all measures that encourage exports must be maintained and constantly perfected and developed on the basis of the summarization of experience as circumstances require.

The planning, investment, materials, government finance, tax collection, finance, and price systems should continue to be improved, and macroeconomic regulation and control systems in which economic, administrative, and legal methods are organically linked that are suited to the province's actual circumstances should be explored and founded. In planning system reform, the principle of a combination of a planned economy and market regulation should be implemented. The enthusiasm of local governments and enterprises should be used as a basis for the institution of either command planning or command plant control, primarily with regard to the principal economic activities of large and medium-sized enterprises. For the collective economy in both cities and the countryside, either command plan or market regulation should be instituted. For the individual economy and the privately owned economy, as well as for foreign-funded enterprises, market regulation is to be instituted. In reform of the investment system, investment policy decisions and the responsibilities of investors must be strengthened in an effort to increase overall returns from investment. Materials system reform requires further invigoration of materials flow, with suitable increase in the percentage of important materials that are centrally distributed by the state to develop markets for the means of production under plan guidance. Government financial reform entails continued implementation of the central government system of financial contracting with Fujian Province, stabilization and perfecting of the province's prevailing fiscal budget management system for prefectures, municipalities, and counties. Insofar as local government and

enterprise enthusiasm can be fully rallied, it also entails a gradual increase in the province's financial revenues as a percentage of national revenues, and an increase in provincial-level revenue as a percentage of revenue derived from the whole province. Improvement of provincial-level financial macroeconomic regulation and control capabilities, and financial reform should be used to increase the macroeconomic regulation and control functions of the provincial People's Bank, strengthening its control over credit programs and the control of funds throughout society, and strengthening control over the raising of capital in society and within enterprises to control the scale of fund-raising in society. Price reform has to be carried out in a planned, step-by-step, and steady fashion in accordance with State Council central planning in light of realities in the province, with opportune moments selected for appropriate readjustment of the price structure of some products. Further work must be done to improve audits, statistics, and control over industry and commerce, as well as in the building of economic information systems.

**6. Active Increase in Effective Market Supply; Intensification of Price Control; and Efforts To Make Adequate Arrangements for the Daily Life of the People**

All possible means should be employed to enrich market supply, with emphasis placed on the purchase, sale, shipment, and storage of grain, and on ensuring fulfillment of grain procurement quotas. Continued attention should be given to "market-basket projects," and a good job done in building urban nonstaple food production bases to increase the production of nonstaple foods, including meat, eggs, and vegetables. Vigorous attention should be given to the supply of industrial manufactures for everyday use, particularly things needed in the daily life of the people, so that sources of goods are ample, so that goods are not out of stock, and so that there is no shortage of different grades. State-owned businesses and supply and marketing, materials, and foreign trade units should improve their style of doing business, improve service quality, and fully perform their role as main conduits and reservoirs of goods, buying and storing more agricultural by-products and industrial wares for everyday use. More industrial and commercial, industrial and trade, agricultural and business, and business and trade partnerships should be formed, the movement of industrial wares to the countryside should be actively organized, and markets outside the province and outside the country should be opened to expand the sale of commodities. Bonus methods should continue in use to stir the enthusiasm of industrial and commercial enterprises, and of supply and marketing personnel to sell overstocked goods. Consumption is to be correctly and actively guided and avenues opened for the sale of products. Agricultural by-products currently sold freely should continue to be sold freely, and some collective and individual business should be permitted to do a

wholesale business in some small commodities. Crack-downs should be rigorously carried out against speculation and profiteering, and against the manufacture and sale of fake and spurious merchandise in violation of the law.

Price controls should be strengthened further. Responsibility systems having as their objective the control of prices should continue in force at all levels of government. Careful monitoring should be done of the price and fee collection standards that the provincial government set for 60 products. Business units should strictly enforce regulations on marking prices clearly. Price and industrial and commercial units should intensify monitoring and should increase supervision by the public to bring to a halt indiscriminate collection of fees, indiscriminate raising of prices, and raising of prices under various guises to stamp out profiteering by middlemen. Control over fee collections should be strengthened, a fee-collection permit system should be instituted comprehensively in a genuine effort to reduce the burdens that enterprises and people in cities and the countryside bear.

A good job from start to finish in the rectification of companies. All jurisdictions and all departments are to complete the rectification of companies on time, and they are to do a good job of placing personnel from abolished or merged companies, inventorying assets, and working with creditors and debtors to protect state-owned assets from losses. Cases of company violations of the law and discipline are to be investigated and settled diligently in accordance with the law and discipline. Rectification of enterprises outside the province and abroad is to be done in accordance with regulations, continuing to pay firm attention. Rectification should be used to establish and perfect various kinds of control regulations and system for better running of companies that meet needs in development of the economy.

**7. Impetus to Scientific and Technical Progress; Development of Education, Culture, Health Care, and Athletics**

Scientific and technical work should continue to implement the "double-blossoming" policy in science and technology to stir the enthusiasm of scientific and technical personnel for service in building the economy. A policy of "respect for knowledge and respect for educated people" should be diligently implemented, efforts should be made to create needed work and living conditions for intellectuals. The implementation of "spark plans" is to be closely dovetailed with "prairie fire plans" and "bumper harvest plans," wide-ranging campaigns for the popularization of science are to be launched and technical training work further intensified. Efforts are to be made to promote technical progress, with firm attention given to research and development of new materials, new techniques, and new products, and their spread to practical application. The launching of campaigns for technological innovation and staff member invention and creativity should be encouraged, and more "torch plans" should be organized. Emphasis



should be placed on the development of a number of high technologies, primarily biological engineering technology, information technology, new materials technology, and photoelectron technology, as well as other industrialization projects. More direction should be given to the building of scientific and technical parks in Fuzhou and Xiamen in an effort to make the most of the role of these parks. Firm attention should continue to be given to basic scientific research work and soft sciences research work, the emphasis being on doing a good job of scientific and technical surveys including the "Meihua-shan natural resources survey," the "Meizhouwan environmental survey," the Taiwan Strait oil and gas resources survey, and the "ocean islands resources survey." In the social sciences, more attention should be devoted to theoretical research on new problems posed by economic and social development. Foreign scientific and technical cooperation and exchanges should be further intensified to promote the development of the province's scientific endeavors.

It is necessary to persevere in placing education in a strategic position for priority development. It is necessary to adhere to the principle that education serves the building of socialism, to link education with productive labor, and to do more in the all-around development of education in ethics, knowledge, and athletics. The letter that Comrade Li Peng's personnel wrote to members of the Kengdong Primary School Young Pioneers in Shishi City should be studied and closely linked to campaigns to study Lei Feng and to study Lai Ning. This year is the 150th anniversary of the Opium War during which education in the historical tradition of modern anti-imperialist and patriotic struggle should be conducted among students. More should continue to be done in the building of school ideological and political work bases and the building of corps for further stabilization of school tranquillity and unity. Major efforts are to be made to improve basic education, and work should be done to implement the "Compulsory Education Code," and the "Fujian Province Methods for Implementing the 'Compulsory Education Code.'" The system of nine years of compulsory education should be advanced step by step. In institutions of higher education, fuller rectification should continue, the scale of development controlled, teaching conditions improved, the curriculum and the pattern of courses readjusted, courses in subjects for which there is an oversupply of graduates curtailed, and education quality improved. Diverse and flexible methods are to be adopted to advance the development of vocational education. In adult education, the emphasis should continue to be on on-the-job training and vocational and technical training. The school teaching network at all levels needs consolidation, and the system for testing those who engage in self-study must be further perfected. This is international illiteracy eradication year. Forces in all parts of society are to be mobilized for a common effort to eradicate illiteracy. Rural education should be intensified, planning as a whole should be done for "three kinds of education," namely basic education, vocational education, and adult

education, the better for education to serve the development of agriculture. Investment in educational endeavors should continue to increase. The masses should be actively encouraged and stimulated to raise money to run schools, to contribute money to run schools, to continue to do a good job in collective surcharges for education, and to further develop all sorts of education funds at all levels to meet needs in development of educational endeavors.

Adherence to an orientation of "serving the people and serving socialism" for the development and flourishing of cultural endeavors. Newspaper publishing, radio broadcasting, television, and the cinema, and literature and art must serve to stabilize the overall situation and advance the building of socialism. Mass cultural activities are to be correctly guided to enrich the masses' cultural life. "Fragrant grass [5364 5430] plans to make city and country culture flourish should continue to be promoted, attention given to pilot projects for their demonstration value. Cultural exchanges with the outside world and with Taiwan are to be encouraged for their contribution in expanding the opening to the outside world. Good work should continue to be done in the fields of record-keeping, compiling of historical accounts, and literature and history. Control over cultural markets should be unflaggingly intensified to promote the healthy development of cultural markets. The protection of cultural artifacts, excavations, and research work should be intensified, and full use should be made of the role of museums, memorial halls, and sites of historical interest in educating the masses in patriotism and the revolutionary tradition.

Continued improvement of health and medical treatment. Realization of the goal of "everyone enjoying health care by the year 2000" should be made a part of socioeconomic development plans, with investment in health increasing year by year and medical treatment and health conditions steadily improving. Health reform is to be deepened, and internal potential tapped to raise the overall level of service of medical treatment and health techniques. Education in medical ethics and medical deportment in which the main component is the propagation of the spirit of Norman Bethune should be conducted vigorously to raise the ideological and ethical quality of medical personnel. A policy of "prevention first" should be carried out, preventive health care and rural health work intensified to raise the level of health of the people.

Development of athletic activities. Energies should be concentrated during 1990 on the tasks required for participation in the Seventh National Athletic Meet [Quanyunhui 0356 6663 2585] in an effort to show fine achievements. Energetic efforts should be devoted to greater ideological and political work among athletes, strictly controlling the athletic corps. More scientific research work should be done on athletics, and a good job done in studying the scientific selection of talent. Mass physical education campaigns should be carried out widely to improve the people's physical condition.



**8. Implement the Three Basic National Policies of Planned Parenthood, Environmental Protection, and Protection of the Land; Do a Good Good Job in All Social Welfare Work**

Diligent improvement of planned parenthood work. The serious situation in population growth has to be faced squarely, both population control and planned parenthood made a part of master plans for economic and social development. Effective measures including propaganda, economic administrative, and legal actions, and mass supervision are to be adopted and diligently implemented. Planned parenthood work is to be a major component in the evaluation of leading cadres' political accomplishments, and all levels are to establish objective responsibility systems. Propaganda and education about planned parenthood are to be intensified, and a good job is to be done in woman and child health care, and in insurance to take care of the aged. All departments should work together to strictly enforce the "Fujian Provincial Planned Parenthood Regulations," intensify control over marriages according to law, vigorously advocate late marriage and late childbearing and the fine birth and raising of fine children, early marriage and early birth halted, and multiple pregnancies strictly forbidden. Particular attention is to be given to planned parenthood work in rural villages and among the floating population to halt unplanned births. Planned parenthood policies are to be diligently applied to individual households and individual persons, raising the province's planned parenthood work to a new level. The fourth population census to be conducted during 1990 is a major survey of the national situation and national strength. Governments and departments concerned at all levels are to strengthen leadership, coordinate closely in the mobilization of the energies of the whole society in accordance with nationwide plans to perform this task conscientiously.

Intensification of environmental protection work. Attention should be given to the implementation of objective responsibility systems for mayors and designated personnel engaged in environmental work for the establishment of a new order in strict environment protection work. In readjustment of the economic structure, the industrial structure, and the product mix, economic and administrative methods should be applied to transform, restrict, and get rid of industries and products that seriously pollute the environment. It is necessary to do more in building an environmental protection system, to strengthen supervision and control, to advance coordinated development of economic construction and the building of the environment, to strictly enforce the "Environmental Protection Code," and to bring to a firm halt the destruction of biological resources, water resources, mineral resources, and marine resources. Efforts must be made to improve and protect the province's natural ecological environment.

Strict enforcement of the land control law, resolutely correcting indiscriminate takeovers of cultivated land and the waste of land. State-issued plans for the use of

land for construction are to be rigorously enforced, a land examination and approval system strictly implemented, land development funds managed and used well, and efforts made to develop new agricultural land. Inspection and supervision are to be intensified, and reckless and indiscriminate mining is to be strictly prohibited, mineral resources being genuinely protected.

A good job of all social welfare work. There is a need to do more in the field of national defense education, to show concern and support for reform and building of the PLA and the People's Armed Police, to do a good job of soldier recruitments, retirements, and placement in civilian jobs, improving the building of the militia and reserve, and strengthening unity between the armed forces and the government, and between the armed forces and the populace. Close attention must be given to the placement of separated and retired cadres, and to the management of retired cadres and workers. Social welfare endeavors should be continued, a good job should be done in providing social relief, and concern shown for the livelihood of orphans, widows, the aged, the families of martyrs and servicemen, and the handicapped. Control over religious work should be intensified.

**9. Energetic Intensification of the Building of Socialist Spiritual Civilization**

The policy of "seizing with both hands" should continue to be upheld. While actively developing material civilization, energetic efforts should be made to intensify the building of spiritual civilization.

Widespread and in-depth education should continue about taking the socialist road under leadership of the Communist Party. Varied methods should be used to do a solid job of getting adherence to the four basic principles in the far-flung cities and countryside, particularly among youth. Education should be given in opposing bourgeois liberalism, about tasks that situations require, and in the state of the nation and the province, as well as education in patriotism, collectivism, and arduous struggle, thereby further raising the socialist consciousness of the broad masses of the people, increasing national self-respect and a sense of responsibility, and striving to bring up a socialist new man imbued with ideals, ethics, culture, and discipline.

Launching of a campaign of joint military, police, and citizen study of Lei Feng. In accordance with provincial CPC Committee plans, an in-breadth, in-depth, and sustained campaign is to be carried out of "joint study of the spirit of Lei Feng, joint building of socialist spiritual civilization, and joint carrying forward of the spirit of the Gutian Conference"; leaders of governments and government departments at all levels are to take the lead in studying Lei Feng to increase awareness of being civil servants, the better to serve the people wholeheartedly. All trades and professions are to ensure that the spirit of Lei Feng permeates every position in accordance with requirements for "the study of Lei Feng by every position, and all vocations establishing a new style." Further

work is to be done in perfecting vocational ethics and position responsibility systems to improve work efficiency and work quality. The campaign to study Lei Feng should be linked to the study of the "Sanming Experiences," a number of key areas, places, and trades selected for the building of civilization "windows." The building of spiritual civilization should be intensified in the open coastal cities of Fuzhou, Xiamen, Zhangzhou, Quanzhou, and Putian, in cities and towns along the Fuzhou-Xiamen Highway, and in Overseas Chinese townships, efforts made to build spiritual civilization along the Fuzhou-Xiamen Highway, and to make the villages and towns along the highway civilized villages and towns.

We must devote unflinching attention to the elimination of pornography and the eradication of the "six evils" and purify the social environment. We must earnestly strengthen leadership to do a thorough job of eliminating pornography and consolidating achievements in order to prevent dying embers from flaring up again.

#### **10. Advance Socialist Democracy and the Building of the Legal System**

We must uphold and safeguard the People's Congress system, and build and perfect democratic decision-making and democratic supervision systems. Governments at all levels should administer according to law, assiduously enforce all resolutions and decisions passed, make timely work reports, and willingly accept supervision and examination by People's Congresses and their Standing committees. Major decisions are to be discussed and approved in accordance with procedures by People's Congresses and their Standing Committees, and the position and role of People's Congresses is to be safeguarded. CPC Central Committee views on upholding and perfecting CPC-led multiparty work and the CPPCC [Chinese People's Political Consultative Conference] system are to be diligently carried out. They are to take the initiative in listening to the views and suggestions of the CPPCC, democratic parties and factions, and people in all walks of life on major policy decisions, diligently handle recommendations, criticisms, and views from People's Congress delegates, and proposals from CPPCC members for the gradual regularization and standardization of democratic decision-making and the handling of affairs through consultation. Contacts with worker, youth, and women's mass organizations require strengthening to make full use of their role in participating in government, discussing political affairs, and exercising mass supervision. Letters and inquiries from the people should be diligently handled and accepted. Investigations are to be promptly organized for major problems that the public reports. A press conference system should be established to bring major matters in government work promptly to the attention of the public.

More should be done to build the legal system. The activities of governments and public employees are to be consistent with socialist laws and regulations. The solemnity of the law is to be safeguarded and declarations

substituting for the law are to be halted. More must be done in building local laws and regulations, and firm attention is to be given to the formulation of economic laws and regulations of a local nature having a bearing on the outside world, and of civil laws and regulations, as well as in improving administrative law enforcement, supervision, and examinations, resolutely correcting failure to rely on the law and insufficiently rigorous enforcement of the law. Continued attention should be given to education popularizing the law in an effort to improve the cadre masses' understanding of the legal system, and their consciousness about handling matters according to law. All preparatory work must be actively performed in advance of implementation of the "People's Republic of China Litigation Code."

Overall regulation of social order should be improved. Multiple educational, administrative, economic, and legal measures should be applied to eradicate all of the factors giving rise to public order problems. Preparatory work to guard against and deal with suddenly arising incidents should continue. Strict crackdowns should continue to be carried out against all criminal activities, matters resolutely handled according to law, and the imposition of fines in lieu of punishment strictly forbidden. In areas, places, and units in which the maintenance of public order is chaotic and the masses are discontent, special forces must be organized to improve public order, solving problems within a limited period of time. Governments at all levels are to strengthen leadership over public order work, do a good job in building law enforcement units, and steadily improve the ideological, political, and professional quality of the broad masses of public security cadres and police. More should be done to build mass self-governing and mediation organizations, and to build all kinds of joint defense networks made up of the armed forces, the police, and the populace to maintain order. Leadership and control of labor reform and labor education work is to be intensified.

Government work tasks for 1990 are extremely strenuous. Governments at all levels must earnestly cultivate themselves so as to be able to carry out, organize, and manage the building of the economy and their obligations in social affairs. In this regard, governments at all levels are called upon to give diligent attention to work in the following five regards in order to ensure smooth completion of government work:

First, they must continue to do a good job in building honest government. Punishment of corruption and greater building of honest government are one of the four major matters about which the Fifth Plenary Session of the 13th party Central Committee called for attention. Continued attention is to be given to investigation and punishment of all cases involving violation of discipline and the law, with forces concentrated especially on the investigation and disposition of those large and important cases that seriously damage reform, opening to the outside world, and the building of honest government. Cases involving graft, bribery, and violation of discipline

in the building of private houses in which official authority is abused for private gain are to be rigorously investigated and punished, and bureaucratic behavior and dereliction of duty is also to be dealt with severely. Indoctrination in honest government is to continue to be intensified to increase consciousness of "opposing corrosion and never being sullied." Attention is to be given to the building of a clean government system, more being done to uphold and perfect effective clean government measures such as the "two opens and one supervision." All jurisdictions and departments, particularly departments having assignment examination and approval authority over personnel, finances, and materials, and units that enforce the law and exercise supervision are to draw up topics to be openly supervised and build a system of laws rules and regulations as their own circumstances require. They should also accept supervision and limitation, and resolutely correct unhealthy tendencies in departments and trades.

Second, fine traditions must be carried on, and efforts made to improve work style. Governments at all levels should diligently carry out "CPC Central Committee Decisions on Improving Party Relations With the Masses," which the Sixth Plenary Session of the 13th party Central Committee passed, adhere to the mass line, and diligently improve ideological style and work style. They should firmly establish the concept that government employees are servants of the people, and that the government should be both clean and hardworking. A spirit of immersing oneself in hard work and laboring like an "old ox," and a spirit of making a selfless contribution, not seeking fame and not seeking private gain, should be encouraged, all personnel doing a solid job in the positions they occupy. Workers who are loyal to the party's cause, work diligently, and who are upright and honest should be given awards. Government employees should probe actual circumstances, and should investigate and study. They should understand and solve situations and new problems in a timely fashion, summarize and spread good ways of doing things and good experiences, and avoid making mistakes in work. Governments at all levels should establish a fixed contact-point system, organize organizational cadres in a planned way to go to the grassroots level to take part in productive labor, listen to the masses' criticisms and suggestions, propagandize the party's line, plans, and policies, personally observe the people's circumstances and the people's opinions, and perform real tasks for the masses. They should improve their work methods, improve work efficiency, and promote a work style of thrift and hard work, dealing with concrete matters, high efficiency, and humility. Responsibility systems should be put on a sound footing; wrangling over trifles and blaming others should be overcome, each person doing his or her job, each person taking responsibility, and each person turning in a good performance. Supervision and encouragement, inspections and coordination should be improved to ensure that all work is carried out to the full. At the present time, the problem

of "a mountain of paper and a sea of meetings" continues to trouble cadres at all levels. The provincial government has decided to start with itself, paying attention to a change in the number of meetings and the amount of paper, energetically streamlining meetings and issuing fewer documents to create the conditions that enable cadres to visit the grassroots level.

Third, ideological and political work in government organs must be improved. The facts about new events that have taken place in the international communist movement and the disturbances and counterrevolutionary riots that occurred in Beijing as spring was turning into summer during 1989 are to be inculcated in the broad masses of organizational cadres so they have a full understanding that the struggle between subversion and countersubversion, evolution and counterevolution is long and arduous. We must firmly establish the concepts of upholding the leadership of the Communist Party and of taking the socialist road. We must uphold democratic centralism, enforce party discipline and government discipline, consciously carry out all plans and policies of the CPC Central Committee and the State Council, and maintain a high degree of unanimity with the CPC Central Committee ideologically, politically, and in action. We must advocate taking the overall situation into account, oppose decentralism and selfish departmentalism, and correctly handle the interests of all parties.

Fourth, we must strengthen the building of government authority at the grassroots level and establish authoritative and efficient grassroots political power. We must strengthen and amplify the power of grassroots organizations having political power, pay close attention to the building of ideology and the building of organizations, pay close attention to the training of grassroots cadres, and steadily improve their political and professional quality. Leading organs and departments concerned at all levels should show warm concern for and help grassroots cadres, solve their real difficulties, and create necessary work conditions for the completion of all grassroots-level work. In the course of the further deepening of reform in rural villages, more should be done to build rural CPC Committees, to develop the township and village collective economy, to bolster township and village financial resources, to consolidate and develop the socialist economy, and to give impetus to the all-around development of the rural economy. We must help do a good job in 1990's county and township elections to ensure smooth performance of government work.

Fifth, we must intensify indoctrination, striving to improve our own quality. We must intensify the study of Marxism, Mao Zedong Thought, and the works of Comrade Deng Xiaoping, use dialectical materialism and historical materialism concepts and methods in analyzing situations, solving problems, and guiding government work. We should establish and perfect self-study systems for leading cadres. In order to meet the demands of this new historical period, leading cadres should also

strive to study and master the scientific and cultural knowledge needed for modernization, accentuate the vocational study of cadres of every kind at all levels, and improve professional quality to meet the needs of reform and opening to the outside world.

Delegates! 1990 is a year for making a fine beginning in the 1990's. Under leadership of the CPC Central Committee, the State Council, and the provincial CPC Committee, we should rally spirits, pool the wisdom and efforts of everyone, strive to do a good job, and continue to advance the building of our province's economy and the reform and opening to the outside world.

### **Zhejiang Opens People's Armed Forces Cadre School**

*OW1007124790 Hangzhou ZHEJIANG RIBAO  
in Chinese 27 Jun 90 p 1*

[Text] The Zhejiang Provincial People's Armed Forces Cadre School was established yesterday in Yuhang Town, a suburb west of Hangzhou, to meet the training needs of cadres of the people's armed forces after they transfer from the people's armed forces department to local control. The school is jointly supervised by the provincial government and provincial military district. The purpose of the school is to train a contingent of people's armed forces cadres who are politically qualified, proficient in skills, and able to pass the stiffest test in work style, in order to strengthen the building of reserve forces in our province. The school is mainly responsible for the political, military, and various types of professional on-the-job training of county-level (city- and prefectural-level) people's armed forces cadres throughout the province.

Wang Wenhui, deputy commander of the provincial military district, and Wang Hongyi, secretary general of the provincial government, attended the inaugural meeting to extend congratulations. Officials of relevant departments under the provincial party committee, provincial government, and provincial military district were present.

More than 100 students of the first class from various county (city and prefectural) people's armed forces departments throughout the province also attended the inaugural meeting.

## **CENTRAL-SOUTH REGION**

### **Crime Attacked in Guangdong's Shantou City**

*HK0507135090 Guangzhou Guangdong Provincial  
Service in Mandarin 0400 GMT 5 Jul 90*

[Text] Over the past month or so, public security organs of Shantou City have actively carried out a struggle against serious crimes.

So far, public security organs of Shantou City have already captured 2,121 criminals, of whom 501 have

committed certain serious crimes, including murder, robbery, causing explosions, rape, and larceny.

Huilai County Public Security Bureau has recently cracked a criminal group responsible for a large number of larceny or robbery cases committed on some neighboring highways and arrested the whole criminal group, including criminal Chen Yuchai, criminal Chen Libiao, and four other criminals.

While carrying out the struggle against serious crimes, public security organs of Shantou City have also paid great attention to eliminating the seven vices and rectifying the cultural market, thereby greatly improving and strengthening Shantou City's social order.

### **Guangdong Students To Work in Hometowns in Summer**

*HK0407041090 Guangzhou Guangdong Provincial  
Service in Mandarin 0400 GMT 3 Jul 90*

[Text] Yesterday evening, the Guangdong Provincial CPC Committee held a telephone meeting which was aimed at making specific arrangements for university students to participate in social practice during this year's summer vacation.

The meeting was presided over by Liu Weiming, vice governor of Guangdong Province.

Fang Bao, member of the Standing Committee of the Guangdong Provincial CPC Committee, delivered a speech at the meeting.

In his speech, Comrade Fang Bao stressed that participating in social practice and carrying out social investigations will enable university students to acquire a correct understanding of China's national situation. Therefore, all university students should adopt a positive attitude toward social practice.

Comrade Fang Bao also put forward some demands on the work. He said that cadres at the county level must brief university students who return to their home counties during this year's summer vacation on the achievements their home counties have made during the decade-long reform and in the course of building both a socialist spiritual civilization and socialist material civilization; Relevant cadres at all levels in Guangdong must also select a number of villages, enterprises, and key projects which have excelled in the course of reform and opening up to the outside world in which university students may carry out social practice and conduct research and investigation; All towns across Guangdong must actively organize university students who return to their hometowns during this year's summer vacation to take part in voluntary labor and scientific and cultural activities; All counties and towns across Guangdong should undertake to guide university students who return to their home counties and hometowns to write investigation reports on the achievements their home counties and hometowns have made in the decade-long reform and opening

up to the outside world and in the course of building both a socialist spiritual civilization and socialist material civilization.

### **Hainan People's Representatives Discuss Draft Laws**

*HK2506135990 Haikou Hainan Provincial Service  
in Mandarin 2200 GMT 23 Jun 90*

[Text] The five-day 11th meeting of the Hainan Provincial People's Representative Conference Standing Committee concluded on the afternoon of 23 June.

The meeting discussed in groups 10 draft laws and regulations, including draft rules and regulations on foreign investment in the Hainan Special Economic Zone, a report on preliminary discussions on those draft laws and regulations, and a report on appointments and removals.

The session on the afternoon of 23 June passed, by voting methods adopted by Hainan Province for the implementation of the PRC Law on Assembly, Procession, and Demonstration, a decision on continuing examination on the law's enforcement, a resolution on the opinions on handling motions brought forward at the Fourth Session of the Hainan Provincial People's Representative Conference, and some appointments and removals.

The session also decided to postpone discussions on the draft rules and regulations on foreign investment in the Hainan Special Economic Zone and the draft regulations for the protection of Hainan natural rubber to the next meeting of the People's Representative Conference Standing Committee.

Attending yesterday's session were provincial People's Representative Conference Standing Committee members Pan Qiongxiong, Cao Wenhua, Zheng Zhang, Lin Ying, Huang Zongdao, and Wu Kuiguang.

### **Hebei Province Releases 1990 Government Work Report**

*90CE0270A Shijiazhuang HEBEI RIBAO in Chinese  
27 Apr 90 pp 1-3*

[Article by Hebei Provincial Governor Yue Qifeng (1471 1477 1496): "Strive To Realize Sustained and Steady Political, Economic and Social Development Throughout the Province—Government Work Report Delivered at the Third Meeting of the Seventh Hebei Provincial People's Congress on 18 April 1990"]

[Text] Delegates!

On behalf of the provincial people's government, I present the government work report to the congress for its consideration.

### **Retrospective on 1989**

1989 was an unforgettable and very extraordinary year. During the year, people throughout the province went through the grim test of political disturbances, surmounted numerous difficulties in economic life, maintained provincewide political, economic, and social stability, and scored new achievement on the political and ideological fronts, and in socialist modernization.

Hebei Province encircles the national capital. The political disturbances and the counterrevolutionary riots that occurred in Beijing during 1989 when spring was turning into summer seriously affected and reverberated throughout Hebei Province. During a crucial period when the country and the people were facing a critical juncture of life and death importance, and when the stability and unity of the whole province was facing destruction, acting under leadership of the provincial CPC Committee and the provincial government, the broad masses of cadres, workers, peasants, intellectuals, people's armed police, and public security police in the province unswervingly carried out the directives of the CPC central Committee and the State Council, and took a clear-cut stand in opposing and halting the disturbances, conducting a determined struggle against all hostile forces and criminal elements intent on opposing the party, opposing socialism, and wrecking stability and unity. We persevered in the correct guidance of public opinion, adopting a policy of education and guidance toward the broad masses of young students, doing a large amount of ideological education in an effort to ease various contradictions. We took prompt and decisive action against the ringleaders who plotted the disturbances and various criminal elements, cracking down on them hard. At the same time, we established plant guard units, militia contingents, and such mass self-defense and guard organizations in plants, mines, and enterprises, and in the province's farflung rural villages, and we closely relied on the worker and peasant masses for maintenance of the normal order of production and daily life. Governments at all levels overcame obstruction, genuinely strengthened leadership and management of production, used all means possible to insure the normal operation of the national economy, and supported the timely dispatch of all forces sent to Beijing to enforce martial law. Thanks to the joint efforts of the people throughout the province, at no time during the "two disturbances" did the province's factories halt work, shops did not close, and transportation was not interrupted. There were no serious incidents of beating, smashing, looting, burning, or killing. The normal order of industrial and agricultural production, and work in government organizations was substantially maintained, and the province provided powerful support to the capital in Beijing in the struggle to halt the disturbances and to put down the counterrevolutionary riots. Victory in this struggle fully demonstrated the people of Hebei's high degree of political consciousness and firm confidence in upholding the leadership of the Communist Party, and in upholding the socialist road. It demonstrated once again that the people of Hebei Province not

only possess a glorious revolutionary tradition, but that they possess a fearless spirit that is able to triumph over all difficulties and dangers in socialist modernization.

During the past year, despite the interference of the "two disturbances," and the attacks of natural disasters, including flood, drought, and earthquakes, government at all levels closely relied on the masses, working together with them in a common effort, and struggling arduously to implement thoroughly the spirit of the 4th Plenum and the Fifth Plenum of the 13th Party Central Committee, and the Seventh Plenum and Eighth Plenum (expanded) of the 3d Provincial Provincial CPC Committee. They worked with one heart and one mind at improving the economic environment and restructuring the economic order, used every means to ameliorate various contradictions in economic life, carefully organized all economic work, and performed rather well in fulfilling the various tasks set by the Second Meeting of the Seventh Provincial People's Congress. Rather remarkable results were achieved in improving the economic environment and restructuring the economic order, and new advances were made in the national economy and in various social endeavors.

**Trend Toward Moderation of the Conflicts Between Total Demand Being Greater Than Total Supply; Currency Inflation Controlled**

A total of 19.296 billion yuan was invested in fixed assets, 7.4 percent less than in 1988. After adjusting for price rises, the actual decline was 19.1 percent. Following stock taking, construction was halted or slowed on 205 projects under ownership of the whole people, or under ownership of city and rural collectives for a more than 700 million yuan cutback in investment. The number of new projects begun was 2,169 fewer than in 1988, down 67.6 percent. The net amount of currency put into circulation for the year was 1.76 billion yuan, 4.68 billion yuan less than during 1988. As of the end of 1989, residents had a savings account balance of 36.45 billion yuan for a 38.8 percent increase over 1988. Bank loans outstanding at the end of 1989 totaled 52.44 billion yuan, up 7.41 billion yuan from 1988, maintaining the state-issued credit limits. Growth of consumption funds slowed. The total wage bill for staff members and workers for the year increased 10.8 percent, but the rate of increase was 15.7 percentage points lower than in 1988. Despite an 18.4 percent rise in the overall retail price index for the year, and failure to fulfill the prescribed control goal, the new rise in prices was only 65.1 percent, a rate markedly lower than in 1988. Furthermore, the rate of price increases receded, going from 30.3 percent in January to 0.7 percent in December. So far in 1990, the overall retail price index has changed from increase to decrease. The overall retail price index for January and February declined 0.8 percent over the same period in 1988. Today, the markets are steady, prices are steady, and the people are calm.

**Tumultuous Situation in the Commodity Flow Area Preliminarily Controlled.** Various companies were diligently examined and rectified. As of the end of February 1990, a total of 4,004 companies of all kinds throughout the

province were eliminated or merged, 32 percent of the total. The problem of party and government operated commercial enterprises was satisfactorily handled, with government and party-operated companies of all kinds being either abolished or cutting their official ties. The problem of cadres holding concurrent positions or serving in companies has been completely solved. A complete readjustment has been made in the companies permitted to remain. Most of them have re-registered. Among the companies examined and rectified, a large number of cases of violation of the law and discipline were found. A total of 3,115 cases were put on file for investigation and prosecution, 2,578 of which have already been dealt with, and more than 25 million yuan recovered or paid in fines. A straightening out of market order was begun, a crackdown carried out against criminal behavior that disturbs markets, including the manufacture and sale of fake, low quality commodities, speculation and profiteering. Markets are better directed and controlled, and some market regulations have been drawn up and promulgated, market order throughout the provinces improving as a result.

**Fine Beginning in Readjustment of the Economic Structure.** Readjustment of the investment structure and the credit structure made for better production and construction of basic industries including agriculture, energy, urgently needed raw and processed materials, communications and transportation. This readjustment included a 7.6 percent increase over 1988 in investment in agriculture, and an 8.6 percent increase over 1988 in investment in energy industries as part of capital construction owned by the whole people. As part of the investment in renovation and technical transformation, the percentage of investment made to improve product quality, increase colors, varieties, and styles, to improve technology, and such technical progress gradually rose. In the production field, a tilt policy was adopted to support agricultural products, foreign exchange-earning export products, products to take the place of imports, and daily necessities, as well as large and medium size enterprises showing good economic returns, for the supply of energy, capital and raw and processed materials, and for technical transformation. Definite results were obtained. Small enterprises that consume too much energy, pollute seriously, produce shoddy quality goods, seriously damage resources, and compete with large industries for energy, and for raw and processed materials were closed, halted, merged, or shifted to other lines. The formation of enterprise blocs through the merger of enterprises spurred the flow of available assets toward dominant industries, and the organizational structure of enterprises began to change.

**National Economy Maintains Moderate Growth.** In 1989, the province's gross social output value reached 15.981 billion yuan in a 6.3 percent growth over 1989 calculated in terms of comparable prices. The province's gross national product was 75.83 billion yuan for a 5.4 percent increase. National income was 64.95 billion yuan, up 4.9 percent. The gross output value of agriculture was 30.7

billion yuan, up 3.1 percent. Gross output of grain was 20,685,000 tons, an all-time high. The gross output value of industry broke the 100 billion yuan mark for the first time, reaching 102.609 billion yuan, up 8.8 percent from 1988. Some important products having a bearing on the national economy and the people's daily life maintained a fine growth momentum. As a result of the development of production, the income of city and rural people continued to increase. Local government revenues for the province amounted to 7.612 billion yuan, up 17.5 percent from 1988, and financial expenditures amounted to 7.73 billion, up 14.5 percent from 1988. The budget deficit decreased.

**New Achievements in Key Construction.** A total of 2.89 billion yuan was invested in the construction of 36 large and medium size capital construction projects during the year in 95.3 percent fulfillment of state plan. Large and medium size capital construction projects completed and put into production, technical transformation projects above the norm, and individual projects totaled 17, principally the following: The Tangshan Alkali Plant, two 1260 cubic meter blast furnaces at the Tangshan Steel Plant and the Xuanhua Steel Plant, the Qianjiaying Coal Washery at Kailuan, No 4 generator at the Xingtai Power Plant, the third quarter coal wharf at Qinhuangdao Port, the Shijiazhuang Display Tube Glass Bulb Plant, and the Tuo-Wang [1001 3769] Railroad. Newly added production capacity resulting from capital construction, and from the renovation and technical transformation of units under ownership of the whole people was as follows: Iron-smelting, 1.8 million tons; steel-smelting 450,000 tons; coal mining; 1.44 million tons; electric power generation capacity, 240,000 kilowatts; electric power transmission lines, 444.9 kilometers; soda ash, 600,000 tons; cement, 336,000 tons; port cargo handling, 30.6 million tons; and city telephone exchange lines, 28,700. Programmable telephones saw substantial development, and new long distance telephone lines were added. Construction of the Shijiazhuang long distance communications hub building was completed, and it was turned over for use, marking a very great increase in the modernization and automation of the province's communications.

**Continued Development of Foreign Trade and Economic and Technical Cooperation.** The provinces exports totaled \$1.64 billion in value, up 5.9 percent from 1988. This included \$1.25 billion in foreign exchange from the export of sundries, up 4.2 percent. The amount of foreign capital put to use increased tremendously, the province approving 103 projects employing foreign capital, contracts totaling \$239 million. Foreign capital actually used totaled \$242 million, including \$112 million for local projects, up 3.3 fold from 1988. Sixty-four technical facilities were imported in transactions worth \$55.71 million. Exports by the three kinds of partially or wholly foreign owned enterprises earned 30.12 million in foreign exchange, 58.1 percent more than in 1988. Foreign exchange earnings from invisibles increased 15 percent over 1988. The Qinhuangdao - Tangshan - Cangzhou Bohai Bay open economic zone, which is in

the forefront of the province's opening to the outside world, took its first steps in the development of an outward-oriented economy, and it scored important advances in increasing the building of basic facilities and improving the investment climate. During 1989, 32 three kinds of partially or wholly foreign owned enterprises were approved in an investment totaling \$81.63 million. Contracted foreign investment amounted to \$26.78 million, and \$17.07 million in foreign investment was actually taken in.

**New Advances in Social Undertakings Including Science and Technology, Education, Culture, Health, Planned Parenthood, and Physical Education.** The province won six national awards for scientific and technical progress during the year, ranking third in the number of awards received nationally. It received five national spark awards; and it made 1,200 major scientific and technical achievements, 28 of them attaining or approaching international standards. New achievements were made in the "twin emancipations" in science and technology, 49,000 scientific and technical personnel throughout the province going to rural villages, and to township and town enterprises to perform "contracting," or to "lead operations." A total of 3,000 technical achievements were spread, producing 1.54 billion yuan in social economic returns. Specifically, new advances were made in scientific and technical group contracting involving a combination of the technical sector and the government sector, and the technical sector and the materials sector in which science and technology took the lead, supply and marketing and materials units provided support, scientific and technical personnel were the mainstays, and rural village scientific and technical demonstration villages (or households) were the foundation. As of the end of 1989, the province had a total of 1,765 contracting groups contracting 43.65 million mu of land. Conventional agricultural techniques were spread to use over 49 percent of the area. Educational endeavors developed steadily. Ideological and political work in institutions of higher education, and moral education in secondary and primary schools received serious attention and improvement. A total of 587 million yuan was invested province-wide in improvement of secondary and primary school teaching conditions, 25.83 percent more than in 1988. The province allocated 5 million as a special fund for solving the housing shortage among young professors in institutions of higher education; and the state allowed 1.335 billion yuan in education expenses, up 12.64 percent. Primary education is largely compulsory in 139 counties (and cities) in the province, and the primary and secondary school drop out problem has been substantially brought under control. Rural education reform test areas were expanded to 12 counties, and "prairie fire" plans were conducted on a greater scale. Cultural activities of all kinds are thriving more and more. City and town medical treatment and health care conditions improved further. Planned parenthood work received further serious attention and intensification. The province's population increased by a net 860,000, the rate of natural increase declining 0.10 per 1,000 from 1988.



New achievements were scored in physical education work; mass physical education activities thrived, and athletics reached a new level. Athletes from Hebei Province took seventh place in the Second National Youth Meet, took a world championship, broke seven world records, and broke two Asian records and 15 national records in other major competitions. New advances were also made in news, publishing, broadcasting, cinema, and television, in environmental protection, national defense education, culture, record keeping, and social welfare endeavors.

**Smooth Advances, Marked Results in Disaster Relief and Help for the Needy.** The province experienced frequent natural disasters during 1989, notably severe drought and earthquake disasters in Zhangjiakou Prefecture. Government at all levels, people throughout the province, and PLA troops stationed in the province actively devoted themselves to the fight against disaster. Throughout the province, 28.58 million people joined in the fight disaster to do emergency work. The province set aside 350 million kilograms of disaster relief grain over and above the contracted grain sale norm, and 71.1 million yuan in disaster funds, as well as large quantities of relief materials. It launched a widespread mutual aid, mutual rescue, and disaster relief donation campaign. The Yangyuan earthquake disaster area also received a \$6 million World Bank loan. All these efforts greatly helped the people in the disaster areas get through the difficulties as quickly as possible to revive production, and rebuild their homes. Assistance to the needy continued to adhere to a combination of assistance and economic development. During 1989, 95.25 million yuan was devoted to helping the needy, 59.53 million of it used to support farming, aquatic product raising, and processing projects. In 21 of the province's 49 needy counties, per capita income increased 100 yuan or more.

**Greater Building of Democracy and the Legal System.** Governments at all levels willingly accepted legal supervision and work supervision from the provincial people's congress, and democratic supervision from the CPPCC for steady improvement of their work. The provincial government regularly reported on its work to the provincial people's congress and listened to its views. It also reported to the CPPCC. During 1989, the provincial government handled 889 suggestions from NPC and provincial people's congress delegates, and 675 proposals from the CPPCC. The provincial people's congress standing committee passed and promulgated 10 requested laws of a local nature, and it announced 41 government regulations. In addition, it continued responsible and rapid implementation of policies according to law, cracking down severely on counterrevolutionary sabotage, severely punishing criminal offenses and economic offenses, and punishing according to law the perpetrators of disturbances and counterrevolutionary riots. In 1989, a total of 101 counterrevolutionary cases, and 21,049 criminal cases were broken, including 8,094 major cases. Further efforts were devoted to the implementation of overall social

peace preservation measures, keeping the social order throughout the province basically stable.

One matter worthy of attention is that as a result of a summarization of the lessons of experience gained from the disturbances and riots, a new change for the better has occurred on the province's political and ideological front since the last half of 1989.

We diligently intensified indoctrination in adherence to the four basic principles and opposition to bourgeois liberalization. Diligent study and implementation of the spirit of the Fourth Plenum and the Fifth Plenum of the 13th Party Central Committee further bolstered ideological and political work. A change began to be made in the situation of inconsistent toughness and softness in the building of material civilization and the building of spiritual civilization. As a result, the unchecked spread of bourgeois liberalization of the past several years was reversed, and the broad masses of cadres and the public have greater faith and confidence in taking the socialist road under leadership of the Communist Party. Some workable ideological education systems and methods were revived and improved, a campaign being launched among the broad masses of cadre and the public of the study of the hero model who quelled a riot [pingbao yingmo 1627 2552 5391 2875], learn from Lei Feng, Learn from Laining, learn from Daqing, and learn from the Liuzhuang Coal Mine. This was linked to practice, and many methods were adopted for conducting education in socialism, patriotism, and arduous struggle. Positive results were produced from the mobilization of the people throughout the province to rally their spirits to overcome difficulties, to improve the economic environment and restructure the economic order, and to deepen reform. In addition, new advances were made in the widespread conduct of campaigns for complete clean up of civilized streets, the building of civilized villages and towns, vocational ethics education, and joint armed forces - citizenry and people's armed police-citizenry building of spiritual civilization, and the systematization and regularization of the building of spiritual civilization.

We unflaggingly took firm hold on the building of clean government, formulating some needed rules and regulations. We continued to summarize and promote experiences gained from the "two opens and the one supervision," and the institution of clean government responsibility systems. We conducted thorough examinations of various particulars, and we conducted examinations of administrative discipline in administrative organizations, establishing a total of 4,340 cases during the year for investigation and prosecution, 3,903 of which have been concluded. This represented a 165.3 and a 136.9 percent increase respectively over 1988. A total of 1,552 people received administrative discipline, 336 of them being remanded to the courts for disposition. A total of more than 61 million yuan in economic losses was recovered for the country. A total of 493 people turned themselves in for violations of the law and discipline. The inspection of administrative discipline



fairly well resolved some hot issues about which society reacted strongly and the masses were concerned. A total of 26,678 people throughout the province were found to have violated discipline in the building of private houses, and 11,979 of them vacated 387,200 square meters of housing. A total of 6,138,000 yuan was refunded, and more than 6,400 square meters of housing was confiscated. Resort to deception, and exceeding limits in evaluation and hiring for technical positions was preliminarily looked into, problems involving more than 22,000 people found, 16,000 of which have been corrected. Cadres, staff members and workers were found to be in arrears in the payment of more than 100 million yuan, 58 million yuan of which was recovered. All these efforts played an important role in giving impetus to the building of honest government.

We diligently carried out a campaign to "sweep away pornography," and eradicate the "six evils," conducting a clean up of publications, and audio and video tapes, and conducting an investigation and straightening out of cultural markets and printing enterprises. A total of more than 15,000 cases of the "six evils" were found and disposed of, and more than 1.33 million books and magazines containing reactionary, lewd, and seriously questionable materials, more than 110,000 tape cassettes, and more than 3,000 video cassettes were found. More than 600 illegal dealers were stamped out, bringing to a halt the spread of disgusting things in society.

The various accomplishments of 1989 were encouraging, but they were not achieved easily. They resulted from the common efforts of the people throughout the province. In this regard, as representative of the provincial government, I extend highest regards to the broad masses of workers, peasants, intellectuals, and cadres in the province, and to the PLA commanders, officers and men of the People's Armed Police, and public security political and legal cadres and police stationed in the province!

In addition to affirming the work achievements of 1989, it is also necessary to realize the difficulties and problems we face. First, as a result of their accumulation for many years, some deep down contradictions in the national economy remain very prominent. Total social demand and total social supply are out of balance; the agricultural foundation is not solid; the structure of industry and the product mix are irrational; and macro-economic regulation and control capabilities are weak. These are problems that are far from being solved. In addition, problems in a market sales slump, and an overly swift recession in the speed of industrial growth occurred in the course of improving the economic environment and restructuring the economic order. Industrial enterprise economic returns are not what they should be, and comparable product costs of industrial enterprises covered by the budget throughout the province are 25.98 percent higher than in 1988. The amount of funds needed to produce finished products is double the 1988 figure, and the losses of failing enterprises are 3.01 times what they were in 1988. The trend is also toward great increase in losses and subsidies for financial

and commercial enterprises. This interweaving of new and old contradictions makes the overcoming of difficulties and the solution of problems more daunting and more complex. Despite substantial increase in provincial government financial revenues, the amounts paid to the national government are greater, and enterprise losses, various subsidies, and new expenditures are steadily increasing; thus, the government remain in straitened financial circumstances. Second, the building of clean government remains insufficiently pervasive in government organs and some units. Serious apathy and corruption continue to exist among a small number of cadres, and in some cases where problems were solved, they have returned. Third, there are also some elements of instability that cannot be ignored. Foreign hostile forces continue to intensify pursuit of a strategy of "peaceful evolution" toward us, pressuring us from all sides. Domestically, an extremely small number of people who stubbornly uphold a bourgeois liberalization standpoint, and who are unwilling to admit defeat, continue to look for opportunities to create disturbances. Social order has not yet taken a marked turn for the better. Some odious situations continue to exist, and some places have not acted sufficiently vigorously in cracking down on criminal offenses. Their overall control efforts have not kept pace. Various serious criminal activities continue to occur steadily in some places. In terms of our work, problems that may occur in improving the economic environment and restructuring the economic order have been insufficiently analyzed. Forecasting is poor, and frequently difficulties are not sufficiently appreciated and are insufficiently estimated. Some actions to solve problems have been neither sufficiently timely nor sufficiently vigorous, and some have not been carried out well; consequently a passive situation has resulted sometimes. All these problems should arouse a high degree of serious attention on the part of government at all levels, and efforts should be made to solve them in future work.

Delegates, we went through 1989 in which the political and economic situations were rather complex, and in which difficulties and contradictions were rather numerous. During this year of hectic work, we truly had numerous lessons of experiences that are worth summarizing and assimilating. We deeply appreciate that in order to realize sustained and stable political, economic, and social development throughout the province, we must first resolutely maintain social stability. Ours is a large province with a large population and scant accumulated wealth in which the standard of living is low, and that has tasted the bitterness of suffering. Stability is the common desire of the people throughout the province. Hebei Province surrounds Beijing and Tianjin. The social and political situation in the province directly relates to stability in the capital city. The people of Hebei have an unshirkable responsibility to safeguard the stability of the capital city. Today, in particular, when there are pressures from without and difficulties from within, maintenance of social stability is a matter of paramount concern that takes precedence over all else. The people throughout the province must greatly cherish the hard

won stability, consciously uphold the four basic principles, and resolutely struggle against all events disadvantageous to tranquillity and unity. Second, they must resolutely carry out the policy of sustained, stable, and coordinated development of the national economy. The national economy is a totality whose development can be limited by many factors. Being divorced from reality, being overly anxious to succeed, and one-sided pursuit of overly high development speed is bound to lead to proportional imbalances and a situation of the more hurry the less speed. Nevertheless, too slow a development speed is bound to impair seriously the province's market supply and the peoples livelihood, as well as impair steadily increased in government financial revenues and realization of the strategic goals of economic development. This should also arouse a high degree of vigilance on our part. During the period of improving the economic environment and restructuring the economic order, and for a long time to come, we must pay extremely close attention to the consolidation and buttressing of the basic position of agriculture, do more to build basic industries and basic facilities such as energy, transportation, raw and processed materials, and communications, thereby creating the requisite conditions for the long-term, sustained, stable, and coordinated development of the whole province's national economy. Third, it is necessary to improve the flesh and blood relations between all levels of government and the mass of the people. Under the new circumstances, we must take genuinely effective actions to conduct an unremitting struggle against the bureaucratism, formalism, commandism, extreme individualism, the abuse of official position for private gain, and such negative and corrupt practices that have grown in government organs, improve work style, and bend every effort to better relations with the masses of the people. Only in this way can we unite all the forces that can be united, millions of people acting with one heart and one mind to overcome difficulties for the smooth completion of the task of improving the economic environment and restructuring the economic order, and steadily advancing socialist modernization.

#### **Main Tasks for 1990**

This year is the first year of the 1990's. It is an extremely important year for improving the economic environment and restructuring the economic order, and for the deepening of reform. It is also the final year of the Seventh 5-Year Plan. Good performance this year holds extremely important significance for fulfillment of the task of improving the economic environment and restructuring the economic order, and for realization of the strategic goal of doubling the gross national product by the end of the present century.

In accordance with the spirit of the fourth, fifth and sixth plena of the 13th Party Central Committee, the overall guiding thought for all levels of government throughout the province for 1990 is as follows: Unswerving implementation of the party's basic line during the initial stage of socialism; perseverance in taking economic construction as

the key issued, adherence to the four basic principles, adherence to reform and opening to the outside world, and resolute protection of political stability and social stability as prerequisites for advancing improvement of the economic order, rectifying the economic environment, and deepening reform; firm reliance on the working class and the broad masses of the people, uniting as one to overcome difficulties and concentrating energies on moving the national economy ahead. Gross social output value for the province is to reach 108 billion yuan, up 5.5 percent from 1988, and gross national product is to reach 79.6 billion yuan, up 5 percent. National income is to reach 67.5 billion yuan, up 4 percent; and government revenues are to reach 8.14 billion yuan, up 6.2 percent. While continuing to persevere in and improve overall control, the emphasis in improving the economic environment and restructuring the economic order, and in deepening reform during 1990 should be placed on readjustment of the structure and increasing economic returns, linking reform and development closely together in an effort to advance the healthy development of the entire economy and all social endeavors.

The province's economic situation has been fairly grim so far in 1990. The situation in industrial production is far from ideal. Gross industrial output value at the township level and above throughout the province for the first quarter increased only 0.24 percent over the same period in 1988. Returns of industrial enterprises within budget slipped. Profits and taxes for the period January through March fell 42.85 percent, and profits and taxes paid fell 17.54 percent. Comparable product costs rose 9.44 percent, and losses increased 4.3 fold. Even though the banks provided industrial enterprises needed circulating capital loans, because of the large amount of capital tied up in unsold finished products, enterprises still found it difficult to get out of their predicaments. Some enterprises halted or partially halted production. As of the end of March, 231 enterprises under ownership of the whole people in the province had halted or partially halted production, thereby affecting the employment of 55,600 staff members and workers. This was 1.37 percent of all enterprises under ownership of the whole people, and 1.50 percent of all staff members and workers. Faced with this grim economic situation, government at all levels will certainly have to take the situation as a whole into consideration, observe discipline, rally spirits, establish confidence in being able to overcome difficulties, make full use of all advantages, bring all positive factors into play, unite the people throughout the province, and pool the efforts and wisdom of all in an unremitting effort to fulfill this year's tasks. The provincial government believes that government at all levels must continue diligent performance of the following tasks during 1990:

#### **1. Give Paramount Position to Agriculture in Economic Work in an Effort to Produce a Fine Harvest of Major Agricultural Products Such as Grain, Cotton, and Oil-Bearing Crops**

Both the CPC Central Committee and the State Council have repeatedly emphasized placing the development of

agriculture in an important strategic position, making good performance in agriculture a major goal in the improvement of the economic environment and the restructuring of the economic order. Hebei Province is a large agricultural province. The improvement of agriculture is crucial to economic and social stability. Taking agriculture as the foundation must be firmly established as a guiding thought throughout the province from top to bottom, active support given to agriculture in a concerted effort to bring in a bumper harvest in agriculture during 1990. Total grain output in 1990 should reach 21 million tons, with efforts made to reach 21.4 million tons; cotton output should total between 12.5 and 13.5 million dan; and oil-bearing crop output should total 700,000 tons. Gross output of meat should be 1,219,000 tons, and aquatic products output should total 210,000 tons. A 300,000 hectare area should be afforested.

Winning a bumper harvest in agriculture for 1990 will require the harvesting of a bumper summer crop, first of all. A large area has been planted to wheat this year, and a good foundation for a bumper harvest exists. Much snow and rain fell last winter and this spring, so few sprouts were freeze damaged or died. However, the wheat fields are wet, and units concerned forecast a medium to severe outbreak of wheat diseases and insect pests during 1990. It is necessary to overcome paralyzed thinking and blind optimism, diligently improve wheat field care, and take all actions necessary to increase yields in an effort to bring in a summer wheat harvest of between 9 and 10 million tons for another all-time high. In addition, firm attention must be given to autumn grain production, the area sown to autumn grain being moderately increased and emphasis given to the growing of high corn yields over large areas to produce a bumper grain harvest for the whole year. In particular, major efforts must be made in cotton production. The province's cotton output has been at a standstill for years on end. The contradiction between supply and demand is extremely glaring, seriously limiting development of the province's light and textile industries. Ability to increase cotton output is not only an economic issue affecting the entire situation, but it is also a political issue affecting social tranquillity. Therefore, cotton production must be given an important position in the national economy. Propaganda and education, readjustment of procurement prices and awards policies, and provision of good services are to be employed to heighten cotton growing peasants interest in growing cotton. Three campaigns will have to be fought in cotton production during 1990 as follows: The first is in sowing, including both spring and summer sowing, every possible means used to insure fulfillment of the 13 million mu growing plan. Second is care, a good job done in the prevention and control of cotton diseases and insect pests in an effort to improve yields. Third is procurement and shipment to increase the number of spindles kept busy. In addition to assuring increased output of grain, cotton, and oil-bearing crops, attention should also be directed to the orchard, animal husbandry, and aquatic products industries to effect their coordinated development.

Increased agricultural input is a major issue bearing on the development of reserve strength in agriculture. During 1990, both the state and the province will increase somewhat their capital investment in agriculture. Funds from all quarters add up to approximately 2.2 billion yuan, 400 million yuan more than in 1989. In addition, World Bank loans for the province's use in developing agriculture were approved and an assessment made in December 1989, and some of them may be available for use in 1990. In addition, a very great potential exists for increased peasant inputs. This includes funds of township and town enterprises, industry taking part in building agriculture, and the use of pooled resources and labor accumulations of the masses, which are the main source of agricultural inputs. Government at all levels must prepare overall plans regarding inputs from all quarters, manage them well and use them well to gain maximum returns from them.

Government at all levels should devote serious attention to the use of science and technology to build agriculture as an important strategic measure. Practice during the past several years has demonstrated that science and technology increasingly manifest a potential for increasing yields. Diligent attention should be given to promoting the application of scientific and technical achievements to grain, cotton, oil-bearing crops and other agricultural by-products. During 1990, wheat and corn are to be grown as part of an integrated plan. Grain, cotton, oil-bearing crops, and vegetables are to be intercropped and multiple cropped, and various diversified techniques for increasing yields such as prototype growing, the breeding of superior varieties, water-conserving irrigation, and dryland agriculture are to be promoted, suiting general methods to local conditions. Provincial government-set demonstration pilot projects for the growing of cotton and corn using plastic mulch, the growing of cotton and wheat, and the growing of summer and autumn grain as part of an integrated plan, and for high paddy yields must be given serious attention and implemented. The scientific research methods of agricultural research agencies should be improved, amplified, and perfected. More agricultural scientific and technical personnel should be organized to go into the front line of agriculture to engage in the contracting of science and technology in rural villages, providing serial services throughout the entire production process, and diligently solving the problem of scientific and technical "faulting" between two levels in rural villages. Major efforts should continue to organize scientific and technical group contracting, linking closely together group contracting with spark plans, prairie fire plans, and bumper harvest plans so that they produce greater returns. Agriculture, science, and education should be planned as a whole, vigorous efforts made to recruit scientific and technical personnel from scientific research units and institutions of higher education both inside and outside the province to take part in group

contracting to give full play to their intelligence and wisdom. It is necessary to establish a scientific and technical training system that links together prefecture, municipal, county, township and village agricultural technical schools, using Hebei Agricultural University as the turnkey in an effort to raise the scientific and technical understanding of the peasants through various kinds of scientific and technical training, getting commonly used agricultural techniques into millions of peasant households.

Unflagging attention must be given to farmland capital construction. Since 1989, mass large-scale farmland capital construction such as has not been seen for nearly 10 years has taken place throughout the province. A total of 258 million man-days of accumulated labor was put into this capital construction during 1989 to restore and improve the elimination of waterlogging and irrigation over a 3.8 million mu area for each, the transformation of 1,717,000 mu of medium and low yield fields, the transformation of 670,000 mu of sandy wasteland, and the afforestation of 4,485,000 mu, the forest network control area increasing 39 percent over 1988. This momentum must continue to be maintained. Farmland capital construction during 1990 must emphasize projects for water conservation, the impounding of water, and the damming of water in addition to which existing water conservation facilities should be repaired, equipped, updated, and protected. In accordance with plans for the building of sluice gates in waterways, and water-conserving irrigation, 1990 plans call for the building of 13 sluice gates to impound water and the development of 14 million meters of irrigation pipelines. In addition, full use is to be made of pits, low spots, ponds, shallow lakes, streams, and ravines in plains area to impound more ground water during the flood season. Places having the conditions should organize professional farmland water conservancy construction teams, and employ accumulated labor and obligatory labor in combination with professional teams to make farmland water conservancy capital construction a systematic, year-round matter. In addition to taking a firm hand in the prevention of drought and the conservation of water, early efforts should also be made to prevent flooding. A good job must be done of building emergency reservoirs, strengthening dikes, and clearing debris from waterways and irrigation ditches, as well as in the building of field drainage systems to assure safety during the flood season and to reduce flood and waterlogging disasters.

The province's agriculture holds tremendous development potential, and new advances should be made during 1990 in both in-breadth and in-depth development. As part of the in-breadth development are more than 38 million mu of barren mountains and wasteland suitable for forests throughout the province, as well as freshwater surfaces, coastal beaches, and large amounts of saline, sandy, and abandoned land, all of which can be developed. Increasing the output of agricultural products such as grain, cotton, oil-bearing crops, and meat should be the main objective in undertaking concentrated development of continuous tracts. During 1990, 240,000 mu

of barren land is to be developed for the growing of grain and cotton. After deducting land used for other than agricultural purposes, a net 160,000 mu of cultivated land is to be added. As part of in-depth development, 70 million mu of the nearly 100 million mu of cultivated land in the province is medium and low yield land producing 250 kilograms per mu or less. Were this land transformed to increase grain yields by an average 50 kilograms per mu, the province's gross output of grain would increase 2.5 billion kilograms. This is where the hope for increased agricultural yields in Hebei lies. During 1990, 1.7 million mu of medium and low yield fields are to be transformed; a 1.24 million mu irrigated area is to be restored or expanded, a 3.75 million mu irrigated area is to be improved; and 3 million mu is to be transformed to prevent waterlogging. All jurisdictions are to determine the focus for development by suiting general methods to specific situations, formulate development plans, and act in the spirit of the foolish old man who moved a mountain, unflaggingly persevering in development year after year and task after task.

The key to moving agriculture forward lies in the continued deepening of rural reform to arouse to the full the interest in production of the broad masses of peasants. The focus in deepening rural reform lies in stabilizing and perfecting the family output-related contract responsibility system and other effective reform measures, establishing and improving socialized service systems in the active development of a strong collective economy. The family output-related contract responsibility system should be a basic rural policy that remains stable for a long period of time, and that is steadily perfected through practice. Land contracting can take many forms. A "two field system" may be instituted in accordance with the will of the people, dividing the land into grain ration fields and responsibility fields, the responsibility fields providing fixed grain procurement quotas and collective withholdings. Places having relatively more land may apportion some as public welfare fields to be contracted by skilled farmers. Places having requisite conditions may conduct various forms of farming on a modest scale such as calling for public bids on newly developed land and poor land in border areas, the land being contracted by large households, households in partnership, or professional teams. Suburbs, industrial and mining areas, and rural areas in which township and town enterprises are developed can run family farms, cooperative farms, and professional agricultural teams, conducting integrated operations in which agriculture and industry assist each other. Fairly highly mechanized villages may centrally conduct area-wide farming, mechanized farming, and peasant household responsibility field care. No matter the method used, the wishes of the masses are to be followed, no hard and fast rules being made. Family contracting should form the basis for efforts to do a good job in providing the various services that the peasants urgently need, intensifying service functions, improving service methods, and amplifying the kinds of services provided. Area-wide service organizations should be developed and perfected at the

township and village level, the wealthy areas helping the needy ones, those who become rich first helping those who become rich later, taking a road of joint prosperity. Monopoly sale of the major means of agricultural production including chemical fertilizer, agricultural pesticides, and agricultural plastic film is to be further perfected, sufficient quantities being provided on time, quality assured, and prices held down. All rural withholdings and fee collections are to be diligently examined, the reasonable ones retained and the unreasonable ones resolutely reduced in order to lighten the peasants' burdens to promote the development of production. The collective economy is to be strengthened, collective accumulations increased. A diligent check is to be made of collectives' existing financial receipts and amounts owing, and of organizational system work so that these funds and assets may play a full role in development of the collective economy.

Efforts are to be made to maintain steady development of township and town enterprises. The province's township and town enterprises have developed fairly rapidly in recent years, and already exist on a substantial scale. Fixed assets of township and town enterprises in the province amount to 12.3 billion yuan. A number of large scale, good return, high technology enterprises have appeared that play a major role in assisting agriculture, making markets thrive, increasing foreign exchange earnings from exports and government tax revenues, providing jobs, improving the building of grassroots political power, developing rural cultural and educational facilities, increasing peasant income, and changing the appearance of rural villages. All jurisdictions are to follow a policy of "readjustment, restructuring, consolidation, and improvement," continue to encourage and guide the healthy development of township and town enterprises, prevent large ups and downs, and strive to maintain a development speed of between 10 and 15 percent. The policy of "four wheels" turning together is consistent with the current level of development of productivity in the province and should be continued. Two tier township and village collective enterprises are the main element in the rural socialist publicly owned economy. They should be actively supported and developed. Some enterprises run by households in partnership have cooperative economy elements. They should be helped to perfect management systems and expand public accumulations for gradual development in the direction of becoming cooperative stock share enterprises. Individual and privately owned enterprises are a necessary supplement to the socialist economy. They should be encouraged to operate according to law, pay taxes as regulations prescribe, and continue to develop. In the course of readjustment, all jurisdictions are to rank existing enterprises on the basis of state industrial policy, retaining those that should be retained and eliminating those that should be eliminated. As applied to the province, this means keeping enterprises that develop in association with large industries, producing parts for them; food processing industries, clothing industries, and construction materials industries that develop local

resources for use; small mining industries in places having requisite conditions provided they do not destroy national resources; enterprises that develop distinctive traditional handicrafts and small products that people in cities and the countryside need; enterprises that develop foreign exchange-earning products for export; and other enterprises that service rural villages or cities. Active support should be given particularly to projects requiring little investment, having a short turnover time, that produce good returns, and that use high technology. At the same time, enterprises providing low economic returns, that waste much energy, that compete with large industries for raw and processed materials, that waste a lot, that cause serious pollution, and that have no prospects for development should be restricted. A number of enterprises whose production is on a large scale, whose technology is advanced, whose product quality is good, and whose economic returns are high should be selected for incorporation into provincial plan and industry-wide management in the gradual shaping of a number of competitive dominant enterprises. Township and town enterprises should be guided to pay serious attention to technological progress, to improve enterprise management, to upgrade personnel quality, and to handle correctly the sharing of benefits among the state, collectives, and individuals. They should be sure to draw clear policy jurisdiction lines, distinguishing between what constitutes flexibility and what is an unhealthy tendency in the operation of township and town enterprises, spurring the healthy development of township and town enterprises.

Serious attention should be paid to helping the needy and providing disaster relief, and doing more to develop impoverished areas. Hebei Province still has nearly 3 million people whose food and clothing problems have yet to be permanently solved. Most of them live in mountain areas, old liberated areas, border areas, and poverty-stricken areas. Efforts must be made to help them solve their food and clothing problems, to escape from poverty as quickly as possible, and to catch up with the standard of living of the province as a whole. More must be done to better manage funds and materials for assistance to the needy and disaster relief in order to increase the effectiveness of support provided. Assistance to the needy and disaster relief should be closely linked to support for production, more going to labor intensive projects that show quick results and from which returns are better, putting needy households and disaster-stricken households to work, and suiting general methods to local situations for the development of "four small supports" for families, thereby improving the "blood making" function in assistance. Governments in Zhangjiakou and Chengde prefectures should carry forward a spirit of arduous struggle, stirring the masses to open the way to escaping poverty to become wealthy by suiting general methods to local circumstances. In the particularly impoverished embankment areas, ecological projects should be actively undertaken in an effort to change the ecological environment, to improve the capital construction of farmland water conservancy, and to develop underground water for use, striving for 1 mu per

capita of fields from which a harvest can be secured despite flood or drought for a gradual change in the low yields and inconsistent nature of agricultural production. Special policies should be adopted to give this area time to rest and build strength in order to change the situation of having to provide disaster relief to it year after year. Scientific and technical assistance to the needy should be increased, of a scientific and technical mechanism for assisting the needy in impoverished areas being founded over time. In places where food and clothing problems have been substantially solved, in particular, the foundation of having sufficient food and clothing and that escape from poverty provides should be turned to advantage, resources in which the area enjoys an advantage and hot selling products being selected, and science and technology relied on, to translate them quickly into regional economic development. Provincial, prefecture, municipal, and county contract assistance responsibility systems should be continued, large numbers of cadres being selected to work in impoverished counties, their responsibilities and requirements being clearly spelled out and performance inspections conscientiously performed. Proper arrangements must be made for the livelihood of disaster victims in disaster-stricken areas, particularly in embankment areas of Zhangjiakou and Chengde prefectures. Disaster relief supplies and disaster relief funds are to be allocated in a timely fashion to insure that severely stricken people who have no money, no food, and no ability to help themselves get through their impoverishment safely, while the masses should also be roused to develop production to save themselves, as well as mutual assistance and relief activities in order to revive production as quickly as possible.

## **2. Earliest Possible Change in the Market Sales Slump Situation; Diligent Attention to Readjustment of the Industrial Structure, and Efforts to Maintain Moderate Production Increase**

The provincial government has stipulated a between 6 and 7 percent speed of increase in industrial production for the province during 1990, a 3 percent increase in the all-personnel labor productivity rate in industrial enterprises, an 85 percent steady rate of increase in quality of major products, and a steady 70 percent rate of decline in consumption of raw and processed materials for the production of major products.

Because of the fairly large first quarter production shortfall, reaching the foregoing goals will be an extremely daunting task. The current market slump has particularly seriously affected the development of production and increase in returns. Reasons for the market sales slump are numerous. They include a serious shortage of funds, clogged commercial channels, and lackluster macroeconomic guidance, but the main reason is that products do not meet market demand. In order to change this situation with all possible speed, the provincial government intends to adopt the following actions in accordance with state macroeconomic regulation and control policies: (1) While continuing to adhere to the "double tight" policy [tight fiscal and monetary policies] in

government finance, the dynamics of retrenchment will be slightly adjusted. Credit will be moderately increased to support industrial production and for business, foreign trade, and materials purchases. The scale of credit and funds are to be planned at the same time and applied in unison, and the existing scale used to the full, used well, and used flexibly, the time of use being slightly advanced. The People's Bank and all specialized banks are to work out scale and funds distribution plans as rapidly as possible, and put them in place within a limited period of time in order to achieve early investment, early results, and quick turnover to meet the urgent needs of enterprises. A commodity procurement reserve fund is to be established Surplus inventories resulting from state-contracted commodity circulation unit purchases of commodities according to plan are to be free from payment of additional interest on funds. Differential interest rates are to be applied to wholesale enterprises who are also to be accorded tax consideration in order to encourage commodity flow units in the better performance of their "reservoir" role. (2) A decision has been made to clear away the "triangular debt" among enterprises. Governments at all levels are to set up special small teams in which the People's Bank takes the lead and all specialized banks take part. These teams are to apply the greatest determination and use the greatest effort to clean up "triangular debt." They are to produce results within a short period of time, freeing idle funds and tapping funds potential. Savings account interest rates are to be readjusted somewhat in accordance with overall state plans in order to support the production of key enterprises. Collection and payment settlement methods are to be actively put into effect to enable earliest normal operation of enterprises' production. (3) There is to be planned allocation of construction funds needed by key construction and emergency projects, and credit for technical transformation is to be increased somewhat. For new projects under construction and projects on which construction is continuing, particularly for projects for which only a small additional investment of funds is needed to get them into production quickly, and that are in keeping with industrial policy, every means should be sought to provide funds for early completion, early production, and early returns. Planning units should issue as quickly as possible capital construction and technical transformation projects for 1990. Requirements can be liberalized somewhat for technical transformation projects purely for the purpose of improving product quality, lowering materials consumption, and improving technological processes. (4) Prices of some commodities may be raised or lowered on the basis of small profits on volume sales insofar as state unified planning and the province's circumstances permit. (5) Positive efforts are to be made to guide consumption, efforts to sell vigorously intensified in an effort to open both domestic and foreign markets; and governments at all levels are to draw up effective sales promotion bonus measures that guide consumption to decrease goods in inventory. Industry and commerce, and industry and trade should be closely linked in the active opening of domestic and foreign markets, diverse



methods used to organize the movement of industrial wares to the countryside, to make deliveries, and to use multiple channels to promote changes of materials between cities and the countryside. Active efforts are to be made to expand the export trade as a means of supporting domestic industrial production. While guarding against the lowering of prices to compete for sales, enterprises are to be encouraged to sell overstocked merchandise. When losses are incurred in the sales of overstocked goods, profit and tax payments may be cut as circumstances warrant. Commodity flow units should actively propagandize and give priority to the purchase of the province's products, avoiding making duplicative purchases elsewhere.

An irrational structure and poor economic returns are a prominent contradiction in industrial production throughout the province. The present market slump both pressures and drives us, and it also provides us an opportunity to readjust the industrial structure. The focus of industrial development throughout the province during 1990 will be on "readjusting the structure, improving management, raising the level, and increasing returns." First, major efforts will have to be devoted to readjustment of the product mix efforts made to develop new products and new varieties of products, and to increase premium brand name products and products in short supply. In particular, it is necessary to increase production of daily consumer goods to meet rural demand, to increase export wares, and to produce products to take the place of imports. Production that requires high energy consumption, produces poor quality products, and seriously pollutes is to be resolutely controlled and prohibited. The catalogue of products is to be ranked by type, lists made of those to be retained and those to be abolished, policy tilted toward production of the desired ones. Technical advances and readjustments of the product mix are to be made a part of enterprise contact agreements, and product development is to be a major element in enterprise appraisals and personnel promotions, which is to be strictly assessed. The provincial government is considering allocating 3 percent of unbudgeted funds to set up a fund for the development and promotion of new products and new techniques, compensation to be paid for the use of the money, and the money to be rolled over. Efforts are to be made to improve the product mix markedly through structural readjustments to promote the steady growth of industrial production. Second is active readjustment of enterprises' organizational structure. This is an important aspect of improving the industrial structure. Full use is to be made of the mainstay role of large- and medium-sized state-owned enterprises, and enterprise blocs, a key policy tilt made toward products that conform to state industrial policies and that are readily marketable. Scheduling is to be better coordinated for 93 of the province's enterprises that pay large profits and taxes to insure their priority for funds, materials, energy, and transportation in a genuine effort to help them solve production difficulties. Third is guiding the healthy development of medium and small enterprises in the

course of readjustment. Protection policies are also to be pursued with regard to those medium and small enterprises that conform to industrial policy and that show good economic and social returns, and that also have a major effect on the local economy. Enterprises that have shutdown or that are losing money are to be analyzed one by one to find the reasons and plans drawn up to turn around their passive situation. Superior enterprises may be organized to assist, contract with, or merge inferior enterprises, those enterprises for which there is no hope being closed, stopped, merged, or retooled.

All enterprises and industrial units should shift their work emphasis to improving enterprise quality and economic returns. They should promote technical progress, improve enterprise management, wholeheartedly rely on the working class, practice a "three-in-one" system that includes cadres, technical personnel, and workers, and conduct suggestion campaigns for double increases and double economies [increase production and practice economy, and increase income and reduce expenses], and for greater enterprise rationalization. This is a fundamental way in which to increase economic returns. Enterprise technical progress should take conservation of energy and lowering of consumption, and improvement of product quality as the main orientation of efforts, linking together technical development, technical transformation, technology imports, and the creation of premium products, improving enterprise development reserve strength and product competitiveness. The key to better enterprise administration and management lies in active pursuit of complete quality control, complete economic accounting, and other appropriate modern management practices, and resolutely overcoming the practice of "substituting contracting for management," and "substituting reform for management." Firm attention should be given to enterprise target-fulfillment campaigns in which the main components are premium quality, high efficiency, low consumption, and safety to promote steady improvement in enterprise administration and management.

### **3. Control of Overly Rapid Growth of Social Demand, and Moderation of the Contradiction of Inequitable Social Distribution**

Total provincial investment in local fixed assets for 1990 is preliminarily set at 9.85 billion yuan. When the amount of work in kind and results are figured in, the amount will be greater. A good job of readjusting the investment structure is to be done in accordance with state and province-prescribed industrial policies, control of the overall scale forming the underlying premise. Continued emphasis is to be given to the building of key projects, investment increased for the building of agriculture, energy, transportation, communications, and for scarce raw and processed materials, as well as for scientific, educational, and basic urban facilities. At the same time, the building of ordinary processing industries is to be controlled, and the building of new storied buildings, halls, and public accommodations prohibited. Insuring realization of the scale of investment and structural

readjustment goals for 1990 will require strictly limiting examination and approval authority, and requesting approval for the beginning of work on new projects in accordance with prescribed procedures. In addition, different tax rates are to be applied to construction projects, and investment in some nonkey construction projects is to be channeled into key state construction projects in accordance with state industrial policy. Vigorous support is to be given in the form of funds, energy, raw and processed materials, and the assignment of construction units for key state and province prescribed capital construction and technical transformation projects to assure their on-time construction and on-time coming on stream. Early stage preparations are to continue for the large East Hebei Steel Mill, the Weixian Coal Field, Huanghua Port, the North China Ethylene plant, the Ganfeng Power Plant, and the Cangzhou TDI Project, all of which are key construction projects, in order to be able to make project proposals soon and begin construction soon. For key projects for which project proposals have already been prepared, such as the Huangbizhuang Power Plant, the Qinquangdao Acrylic Fiber Project, the Shacheng - Weixian Railroad, and the Huang He Diversion Project all pre-construction preparations are to be given close attention so as to be able to start construction at an early date. For projects already under construction such as Tangshan Port, the Qing, Ji, and Qing diversion project, the five-stage Xingtai Power Plant, the Qinquangdao Ammonium Phosphate Plant, the 1,240 cubic meter blast furnace at the Ganfeng Steel Mill, and the Fanshan Phosphate Mine, close attention should be given to construction organization and command, to insuring quality, and to insuring on-time construction in order to complete construction as early as possible to begin to obtain benefits.

Overly rapid growth of consumption funds should continue to be controlled so that consumption demand corresponds to the province's rate of increase in national income and the labor productivity rate. The purchasing power of social groups should continue to be controlled; the scope and standards for payments of bonuses, allowances, and subsidies should be examined and rectified; the wage fund examination and approval system, and the bank supervision and control payment system should be perfected, and the overly free issuance of bonuses and goods, as well as unauthorized increases in allowances and subsidies is to be resolutely corrected. Efforts are to be made to correct and overcome egalitarianism in distributions and the trend toward an overly wide gap in earnings, restrictions placed on overly high income. Supervision and control is to be intensified over the earnings of corporation personnel, and personnel in secondary industries, as well as the income of the owners of privately owned enterprises, and individual industrialists and businessmen, all illegal dealings resolutely stamped out, all illegal income confiscated, and legal income being subject to payment of an income regulation tax in accordance with policies. Perfection of enterprise contract systems should be used to control within

reasonable limits the income gap between contractors and staff members and employees.

While controlling consumption demand and solving the problem of inequitable social distribution, consumption should be properly channeled. Bank savings accounts have jumped throughout the province during the year, increasing by 4.4 billion yuan from January through March. The residents' savings surplus balance now stands at 40.9 billion yuan. When taken together with cash on hand, this amounts to a total of 51 billion yuan in purchasing power. This situation plays a definite role in easing the banks' funds shortage, but the overly rapid increase in savings is bad for market stimulation. Therefore, efforts should be made to guide the masses in consuming a little more, particularly to expand consumption during the current year in order to ease the serious pile up of products in inventory and the market sales slump.

#### **4. Vigorous Efforts To Increase Revenues and Reduce Expenditures; Striving To Do a Good Job of Government Financial Work**

The province has been in straitened financial circumstances for many years. Despite the considerable increase in revenues during 1989, no fundamental change occurred in the government's straitened financial circumstances. Reasons for this situation include the irrational production structure, low returns, and the relatively small control that the government financial system exercises over financial resources. Other reasons included the province's large number of administrative personnel, and large expenditures. There was also a serious revenue loss. In many of the province's counties, in which the industrial structure is largely similar, there was a substantial gap between output value of industry and agriculture in proportion to government receipts, government receipts being as high as between 8 and 9 million yuan for every 100 million yuan of industrial and agricultural output value, and as low as only a little more than 1 million yuan. A lot of money that should have been collected was not fully collected. During 1990, the central government will concentrate financial resources to increase the province's proportion, while simultaneously reducing special subsidies to local governments. This, plus the effects of price increases and wage upturns, will mean an even grimmer situation for government finances. Elimination of the government financial deficit will be difficult, and there will be many hardships. The solution lies in broadening sources of income and reducing expenditures, and in increasing receipts and reducing payments. Tax collections must be further intensified and improved. While intensifying tax collection from large- and medium-sized enterprises, special attention has to be given to the intensification of tax collections according to law from individual operators and private enterprises. All reductions and exemptions from taxation must be diligently checked, rectified, and strenuously controlled. Checks must be made at all levels, and genuine reliance placed on grassroots cadres, individual societies, trade associations, and the broad



masses of the people to plug loopholes, reduce revenue losses, and collect promptly the full amount of all tax money due. At the same time, continued efforts should be made to foster sources of funds. In 1989, unbudgeted funds in the province totaled 8.1 billion yuan, and some problems existed with regard to their management and use. An examination and approval system for self-provided funds for capital construction, bonuses, wage funds, and purchases of monopoly-controlled commodities should be rigorously enforced. A control system consisting of "special accounts, plan control, policy guidance, financial examination and approval, and bank supervision" should be instituted for the unbudgeted funds of administrative and enterprise departments in charge, as well as of enterprises, and conditions should be created for the concentration of some funds for use in the technical transformation of enterprises. By way of reducing government financial expenditures, government finance units at all levels will cut all expenditures by 5 percent during 1990 with the exception of personnel wages, some necessary office expenses, price subsidies, and key construction projects. Efforts will be made to create conditions for the institution of a system whereby the next level down is responsible for how administrative expenses are paid, the total amount not to be exceeded. All administrative and entrepreneurial units will experience lean days. Extravagance and waste will be halted, economization will be strictly enforced, and enterprises will be run on the basis of hard work and thrift. Major inspections of tax collections, prices, and finance will continue. Vigorous launching of double increase and double economy campaigns will be used to insure fulfillment of the year's plans for increasing revenues and reducing expenditures.

Banks will continue a tight credit policy, and a policy of controlling total volume, readjusting the loan structure, insuring key projects, making general cutbacks, making timely readjustments, and improving returns. They will get the most out of increases in credit, make timely readjustment, diligently assuring that the scale of credit and the amount of currency issued are consistent with economic growth. They will regulate and optimize the credit structure on the basis of industrial policy in combination with the technical development and technical progress of enterprises, providing credit to the superior and restricting credit to the inferior. They will continue tilt policies toward agriculture, toward the purchase of agricultural by-products and purchases for foreign trade, and toward key national construction projects and key production projects. They will moderately increase working fund credit and issue it in a timely fashion. They will halt credit for the production of goods that the state has ordered halted. They will tap existing funds potential, and they will diligently practice the "five checks." They will check the accumulation of finished goods in inventory, check credit assets, check mutual payment arrears, check loans to individually owned businesses, and check individual arrears in payment of public funds. Checking will be used to move funds. They will continue to protect the value of savings, further

develop insurance, and do good work in taking precautions against natural calamities and indemnifying losses. Financial institutions at all levels should make use of the macroeconomic regulation and control function of economic levers, strictly enforce state interest rate policies and accounts settlement discipline, guard against and overcome tendencies toward onesided emphasis on operating like enterprises, strive to improve service, and improve the regulation and use of funds.

##### **5. Invigoration of Commodity Circulation, Better Market Price Control, and Providing for the People's Livelihood**

Commodity circulation is the important link that connects production and consumption, and it has a bearing on the stability of the people's livelihood. Keeping market prices relatively stable requires not only efforts to develop production, with particular attention to the production of agricultural by-products and readily marketable industrial wares, and vigorous increase in effective market supply, but also requires full use of the main channels of circulation and the "reservoir" role of state-owned business and materials enterprises. It requires firm control in the hands of state-owned business and materials units of the wholesaling of major commodities and important means of production that affect the national interest and the people's livelihood, diligent holding down of market prices, and timely regulation of supply and demand. Special emphasis must be placed on the purchase of agricultural by-products and the province's industrial goods, instituting differential interest rates, reserve funds, and market regulation fund systems for some agricultural means of production and other commodities of a fairly strong seasonal nature, doing a good job of purchasing and storing them, doing a good job of regulating the availability of commodities in different areas inside and outside the province, giving attention to "market basket" projects, and insuring supply of necessities used in the daily lives of people in cities and the countryside, and food for the cities including meat, eggs, and vegetables.

The rate of increase in retail prices throughout the province during 1990 will certainly be lower than in 1989. Realizing this control objective will require further implementation of various control measures. Mostly various companies and units in the wholesale field will have to continue to do a good job of checking and straightening out companies, resolutely stamping out usury and middlemen who disrupt the markets, and cracking down on those who buy solely for the sake of selling at a profit, efforts to dominate markets, speculation and profiteering, and the manufacture and sale of fake, low quality merchandise. Price controls will have to be strengthened in an effort to maintain the prices of necessities used in the daily life of the people, and standards for important charges. Maximum prices will be instituted for the small number of important commodities on which price restrictions have been removed. Better supervision and control of rural market prices will require reliance in rural villages on the public's general establishment of price control stations. Prices of coal,

electric power, cotton, and the agricultural means of production, as well as fees charged for medical treatment, transportation and education are to be the principal items to which rectification of the price order will apply. All indiscriminate price increases, indiscriminate collection of fees, indiscriminate imposition of fines, and indiscriminate exactions are to be resolutely corrected and halted. A system whereby prices are openly displayed on merchandise is to be diligently implemented. Commodities for which the state sets prices are to be sold strictly at the state set price. Prices rises must be rigorously controlled for commodities under control of the province and below. When prices must be increased, approval of the province must be sought. Price control objective responsibility systems are to continue, and meeting the objectives will be an important component in the evaluation of all levels of government and the political accomplishments of responsible persons in departments concerned.

Proper placement of persons awaiting employment has a direct bearing on the people's livelihood and social stability. The number of people in the province's city and town workforce that will come of age during 1990 is 230,000. It is estimated that jobs can be found for only 110,000 of them. When this number is added to the number of staff members and workers from enterprises that have halted or partially halted production, the employment pressure is very great. A plan is needed that combines labor unit introductions with voluntary organization and finding one's own job in order to place those awaiting employment in cities and towns. For personnel from enterprises that have stopped work who are waiting for employment, overall planning that takes all factors into account must be done in combination with social relief and finding one's own job in order to open employment avenues and widen employment channels. Enterprises should diligently accept social responsibility for employment. Large- and medium-sized enterprises at the county level and above should generally not put people on long-term leave. They should organize redundant staff members and workers to take technical training, to repair equipment, to improve the plant's appearance, and to do other public service work. Bankrupt or nearly bankrupt enterprises should do all possible to avoid closing or halting production, and to effect mergers and retooling to enable their staff members and workers to make a smooth transition to new jobs. Staff members and workers in plants that have halted or partially halted production should be issued modest wages or living allowances to maintain their basic livelihood. Currently the province has plans to employ 480,000 people from outside the province, very many of whom come from rural villages. A decision should be made to dismiss a number, and to use the vacated positions for the placement of young people from cities and towns awaiting employment, and staff members and workers from closed plants awaiting employment. Healthy development of the individually and privately owned economy should be encouraged and guided, and the most should be made of their active role in providing

employment. Rural villages should plan the production and livelihood of personnel returning to the countryside. In order to lighten social employment pressure, while doing more about the central control and plan guidance of rural laborers entering cities to work, policies should be instituted regarding "transferring from agricultural to nonagricultural status," dual control exercised through policies and criteria for permitting transfers that are strictly enforced.

#### **6. Taking Perfection of the Enterprise Contract System and Strengthening of the Macroeconomic Regulation and Control System as the Focus for Continuing the Deepening of Reform**

Promotion of the long-term, stable development of the province's national economy requires the close linking of improvement of the economic environment and restructuring of the economic order with the deepening of reform, further deepening and perfecting all reform measures in order to meet needs in the development of a socialist planned commodity economy, with the gradual establishment of an operating mechanism that combines the planned economy with market regulation. During 1990, the emphasis is on deepening enterprise reform and founding and strengthening the macroeconomic regulation and control system.

The deepening of enterprise reform involves mostly upholding and perfecting the enterprise contract operations responsibility system. Practice has demonstrated that the contract system plays a positive role in improving enterprises' economic returns, in assuring state financial revenues, and in improving the life of staff members and workers. It should be made even better through the summarization of experiences, promoting what is beneficial and abolishing what is harmful. Emphasis should be on solution to three problems as follows: First is perfecting the contracting norm system, a good job done in all-personnel contracting and risk contracting. Contracting norms should not just include return norms, but should also include management norms, and norms for the promotion of technical advances, and augmenting working capital and bonus fund reserves, which improve enterprises' reserve strength for development. Second, while continuing to make use of the stimulating mechanism, a restricting mechanism for enterprises should be established and strengthened, political, economic, legal, and administrative methods applied to standardize enterprise behavior, so that enterprises will correctly handle the relationship among the state, the enterprise, and staff members and workers in the distribution of benefits, and correctly handle the correlation between immediate benefits and long-term benefits. Contractors who resort to deception, who claim to be producing profits when they are producing losses, who seek gain at the expense of others, and who cause turmoil and the collapse of enterprises are to be duly punished following audit to clarify circumstances. Third is the correct handling of relationships among the party, government, the trade union, and the

Youth League in enterprises. The plant manager responsibility system is to be upheld and perfected, and it is also necessary to strengthen enterprises' party organization leadership in ideological and political work, wholeheartedly rely on the working class, make full use of the role of the masses as masters in their own house, and make use of the role of the trade union, staff assemblies [zhidaihui 5120 0108 2585], the Communist Youth League, and mass organizations. The legal rights and interests of staff members and workers are to be guaranteed to stir the enthusiasm of staff members and workers.

Full use should be made of the opportunity that improving the economic environment and restructuring the economic order provides to advance enterprise mergers and partnerships, developing enterprise blocs having a rational flow of production elements and optimized groups for the strengthening of the economic might of the province's enterprises. Solutions must be found for problems encountered in already established or forming enterprise blocs such as Metallurgy, China Pharmaceutical, Universal, Yaohua, the motor vehicle industry, and oriental rugs to enable them to increase their economic might through consolidation and improvement for a gradual transition from loose, low level cooperation to long-term, stable, close cooperation. Some key enterprises (including township and town enterprises), and scientific research units should also be developed as turnkey enterprise blocs in accordance with the principle of making the most of advantages and upholding voluntariness. In addition, it is also necessary to make the most of advantages that the province possesses for the widespread development of economic and technical cooperation with other provinces, importing goods, technology, capital, and skilled personnel, and engaging in regional cooperation with them to hasten the transformation of the province's old enterprises, solve problems in production, and expand the market share of the province's products both at home and abroad.

An economic operating mechanism that combines a planned economy with market regulation will require the founding of a two tier central government and provincial regulation and control structure. Improvement and perfection of local macroeconomic regulation and control consists primarily of rationalizing and improving management of plan, commodity circulation, government finance, banking, and materials. The principle of a combination of a planned economy and market regulation requires a somewhat greater role for plan during the readjustment period, with an appropriate expansion of the purview of command plans, and the formulation and implementation of command plans. More forecasting and control of the main economic parameters has to be done to effect overall equilibrium. Financial resources have to be properly centralized, some unbudgeted funds brought under budget control. The lever that bank interest rates provide is to be used to regulate demand for capital and capital flow. Economic monitoring and warning systems must be set up and perfected and more auditing, statistical, industrial and commercial control,

standards, and economic information systems have to be built and play their monitoring and forecasting roles to the full. In addition, during 1990 attention must be given to city and county overall reform, as well as pilot projects for reform of the housing system, the social support system, and the division of profits and taxes.

#### **7. Adherence to Opening to the Outside World, Actively Expanding Foreign Trade and Economic and Technical Cooperation and Exchanges**

The opening to the outside world is a basic national policy that the country has upheld for a long time that must be unwaveringly adhered to. We certainly must seize the moment, use all favorable circumstances, and overcome temporary difficulties to do a solid and highly effective job of opening to the outside world. For 1990, the province plans the export of \$1.3 million worth of local sundries, 4 percent more than in 1989. Full advantage must be taken of the favorable opportunity that readjustment of the renminbi exchange rate provides to increase exports. Further perfecting the contract responsibility system to fulfill export quotas. Sources of supply should be better controlled, a fine system built for the purchase of goods. Consignment agents should be used for large volume commodity exports, and partnerships between industry and trade should be tried out. The export commodity mix should be improved. While insuring steady increase in traditional export commodities, efforts should be made to export highly processed goods and goods having high added value, and to expand the percentage of electromechanical product exports. Methods should also be devised to export commodities and raw and processed materials for which domestic market contradictions between supply and demand have eased. In addition, vigorous efforts should be made to develop the three forms of import processing and compensation trade, and to increase the export of products made from imported raw materials as a percentage of commodity exports. Policy measures to encourage exports are to be continued and perfected. Enterprises producing export commodities should strive to improve product quality, to adjust colors, styles, and varieties, and to live up to agreements better as international market requirements demand. Foreign trade units should change their thinking, improve administration and management, improve relations between industry and trade units, tap internal potential, maintain good warehouse inventories, and settle accounts, accelerate final settlements, reduce the irrational use of funds and irrational expenditures, lower costs, reduce losses, and improve economic returns. While striving to expand exports, imports should be curtailed somewhat, limited foreign exchange being used in the places where it is needed most. Local governments should use foreign exchange mostly for technology imports, for the importation of raw and processed materials in short supply that are needed in industrial production, and for the agricultural means of production. Further control should be exercised to limit imports and quota import commodities, strictly limiting the importation of ordinary electromechanical products, small sedans, and high quality

durable consumer goods, and also strictly prohibiting the importation of luxury consumer goods.

A solid job should continue to be done in using foreign capital and in the importation of advanced technology. The existing three kinds of partially or wholly foreign owned enterprises should be conscientiously operated, diligent assistance given to these enterprises in solving existing problems. In addition, the principles of "steady as you go" and "acting within capabilities" should be followed in an effort to improve the investment climate, assimilation of foreign trader direct investment being the focus so that more can be done in the way of "grafting" foreign capital and technology to the transformation of old enterprises. Duplicatory imports of technology are to be guarded against, and already imported equipment and technology must be diligently digested and assimilated. Every effort should be made to use foreign low interest and interest-free intermediate and long-term credits. Newly imported foreign capital is to be managed and channeled in accordance with state and provincial industrial policies, plans for the use of foreign capital being made a part of capital construction and technological transformation programs and centrally administered. Efforts should be made to increase returns from the use of imported capital, to prevent loss of control over the borrowing of money, truly "making loans, using them well, and being able to repay them." Beginning in 1990, all prefectures, municipalities and departments using foreign exchange must repay debts before importing. They must also establish a debt repayment fund to insure on-time foreign debt repayment.

A good job must continue to be done in operating the Qinhuangdao-Tangshan-Cangzhou Bohai Bay Open Economic Zone. Efforts must be made to improve the open zone's tangible and intangible environment for investment by foreign traders, emphasis being placed on the building of basic facilities such as transportation, energy, and communications, improving work style, and increasing operating efficiency. The various central government and province preferential policies are to be implemented in order to attract foreign traders to come to the open zone to contract the development of land or tracts of land. A number of enterprises should be selected for external leasing, experimenting with the transfer abroad of enterprise stock share rights. Screening should continue to find some projects to place in the Qinhuangdao Economic and Technical Development Zone to make full use of the zone's role as a window for opening to the outside world. Greater strides should be taken in the development of an externally oriented economy in the open zones.

Friendly international contacts should be launched on a wide scale, and the economic cooperation angle should be stressed more in foreign contacts. In particular, the role of compatriots in Hong Kong and Macao, of compatriots in Taiwan, and of overseas Chinese abroad in the development of our province's externally oriented economy should be brought into play. The development

of tourism, labor exports, technology exports, and contracting of projects abroad should be continued to raise revenues from invisibles to a new high.

#### **8. Continue To Pursue the Strategy of "Science and Technology To Build Hebei, Expedite Development of Scientific and Technical as Well as Educational Endeavors**

Science and technology are a primary productive force, and expediting scientific and technical progress is a historical task for the entire party and all of the people. Both in overcoming the province's present economic troubles, and in realizing long-term, stable development of the national economy, a high degree of attention must be given to science and technology, and to education. Efforts should be made to carry out a development strategy of "science and technology to build Hebei," formulating truly workable master plans. The policy of the "double blooming of science and technology" should continue to be upheld in scientific and technical work during 1990, the focus being on "science and technology to build agriculture," technical progress in industry, and carrying out a readjustment of the product mix, increasing investment in science and technology somewhat, and concentrating energies on doing a good job of 115 key scientific and technical projects, 800 new product development projects at the prefecture and municipal level and above, and on 4000 scientific and technical achievements promotion projects. In agriculture, the emphasis should be on the breeding of varieties of crops and breeds of animals, the transformation of medium and low yield fields, overall regional development, and research on the prevention and control of diseases and insect pests. In industry, energetic efforts should be made to spread scientific achievements requiring small investment that produce high returns, to speed up the development and spread the use of new products, new skills, and new technologies, and strive to make breakthroughs in advanced electromechanical equipment, new varieties of processed steel, new energy saving, smelting, and rolling techniques, basic raw materials for light industry, new technologies for cleaning up pollution, as well as highly effective agricultural pesticides, and compound fertilizers. In addition is scientific and technical work in the key areas of better health and sanitation, environmental protection, and planned parenthood. Efforts are to be made to carry out "torch" plans, to promote the development of high technology and new technology industries, to do a good job of in-depth planning of scientific and technical research, to intensify research in the applied, basic, and soft sciences, and to increase reserve strength for the development of science and technology. There is to be active launching of campaigns to found enterprises on the leading edge of science and technology. Large and medium size enterprises and enterprise blocs should establish and perfect technical development and technical research and management systems responsible to master engineers under leadership of plant managers. They should establish and strengthen technical development organizations, and

both small enterprises and township and town enterprises should also use various means to form their own technical backstopping. Work to popularize science should be widely conducted, and use made of the role of organizations for the popularization of science that exist among the populace, further improving the scientific and technical level of the entire populace.

Steady development of educational endeavors should continue. A socialist orientation should be upheld in education, and a policy diligently carried out of education serving the building of socialism, and education in combination with productive labor. The neglect of ethical education, and the tendency to neglect students' complete development should be diligently rectified. All levels and all categories of schools are to give paramount position to ethical education, diligently improve school ideological and political work, and educate students in patriotism, socialism, and the revolutionary tradition, strictly inculcate school spirit and school discipline, and strive to train all-around builders of socialism and successors versed in ethics, knowledge, athletics, esthetics, and labor. Governments at all levels are to better direct and guide education. Institutions of higher education are to provide education in basic Marxist theory for the gradual solution of some deep-seated problems of ideological understanding. During the course of improving the economic environment and restructuring the economic order, the scale of education is to be controlled and adjustments made in the locations of colleges. New schools are to be rigorously examined before approval, and more energy is to be placed on using limited financial resources to optimize the educational structure, to improve educational quality, and to improve teaching conditions in existing schools. Systems for student participation in actual production, social practice, tempering through labor, and military training are to be further perfected. The education of students is to be a part of centralized state assignments, taking the road of linking industry and agriculture, and production and labor. Middle and primary schools are to launch campaigns to study Lei Feng and to study Lai Ning depending on the age of students, and do a good job in providing education in standardized behavior. The tendency to pursue a high promotion rate above all else is to be rectified. The "compulsory education law" is to continue to be applied, a nine-year compulsory education system actively pursued. The arbitrary levying of middle and primary school fees is to be corrected; school work burdens on middle and primary school students are to be lightened, and the student drop-out rate is to be lowered. Funds are to continue to be collected through numerous channels to improve teaching conditions. The problem of 240,000 square meters of dangerous school buildings in the province is to be remedied during 1990. "Prairie fire" plans are to continue; comprehensive reform of rural education is to be promoted, and agricultural science education is to be planned as a whole to improve overall benefits. Experiences with vocational and technical education are to be summarized carefully to advance the healthy development of vocational and

technical education. Adult higher education is to be reorganized; and the slapdash operation of schools, and the arbitrary collection of fees are to be corrected in an effort to improve quality of adult education. This is international illiteracy eradication year during which leadership should be strengthened to advance the provinces work in eliminating illiteracy.

The intellectuals hold an important role in the development of science and technology and educational endeavors, as well as in the entire building of socialism. It is necessary to carry out a diligent policy of "respect for knowledge, and respect for able people, and strive to improve both their working and living conditions. During 1990, the province will continue to allocate special funds for use in solving the housing problems of professors, staff, and workers in institutions of higher education, while also doing all possible to solve the housing difficulties of senior middle and primary school teachers and outstanding teachers. We hope that the broad masses of intellectuals throughout the province, particularly young intellectuals, will intensify their study of Marxism and Mao Zedong Thought, persevere in linking theory to practice, and in linking it to the tradition of the industrial and peasant masses, the better to contribute strength to the building of socialist material and spiritual civilization.

#### **9. Perseverance in Attention to Planned Parenthood; Strict Control of Cultivated Land Takeovers; and Sedulous Improvement of Environmental Protection**

Control of population growth, and protection of cultivated land and the ecological environment are important problems affecting the country's economic and social development, as well as having a bearing on posterity. We must fully realize the seriousness of the province's population problem, land problem, and environmental problem, and establish a sense of crisis and urgency. The province's population problem is extremely severe, and we are right in the middle of a new peak birth period. We must adhere to a strict policy to control population growth, and diligently implement "Hebei Province Planned Birth Regulations." The focus of planned birth work is in rural villages, and the key lies in grassroots level work. It is necessary to improve control capabilities on the first defense line at the grassroots level, doing more in the way of constant, regular, and systematic scientific control. It is necessary to perfect planned parenthood service networks in counties, townships, and rural villages, do a good job of propaganda and education about planned parenthood, do a good job of educating people in the idea of being able to give fewer children finer opportunities, of maintaining the health of mother and child, and of old age insurance. More control must be exercised over births among the urban floating population. Population control objective responsibility systems must be continued, and the planned parenthood target control system must be further perfected. All forces are to be mobilized for the completion of a high quality fourth nationwide general census.

Propaganda and education should be vigorously conducted about the national situation and national policies relating to land so that the broad masses of cadres and people will consciously cherish the soil and protect cultivated land. The "Land Control Law" must be diligently implemented, matters handled strictly according to law, and instances of illegal takeovers and waste of cultivated land corrected. More must be done in the use of plan to control land takeovers for construction, an examination and approval system strictly enforced, and all possible done to prevent or reduce takeovers of cultivated land. Henceforth, anyone who takes over agricultural land for construction purposes will be obligated to open up new land. All counties are to establish basic farmland protection zones. They should institute payment for the use of home sites. They should make up their minds to change old customs of using land for graves. Land development funds should be managed and used well, every means used to open new agricultural land, changing the situation in which the amount of cultivated land continues to decrease, and strive to stabilize the cultivated land area.

Continued efforts should be made to advance environmental protection work. Governments at all levels must resolutely carry out the "Environmental Protection Law," and other associated laws, codes, and regulations to strengthen and improve macrocontrol. The environmental protection objective responsibility system should be diligently promoted, and the environment objective responsibility agreement that 10 municipalities and one prefecture reached with the provincial government is to be implemented. Requirements for improving the economic environment and restructuring the economic order should be linked to industrial policy to do a good job of environmental work. The planning of all construction projects is to include an environmental impact evaluation. Facilities for the prevention and control of pollution are to be designed at the same time as the main project, built at the same time, and come on stream at the same time to prevent new sources of pollution from coming into being. Close attention should be paid to the prevention and control of existing pollution, seriously polluting units being required to stop polluting within a certain period of time. Today, the main emphasis should be on preventing and controlling water pollution, consciously protecting sources of drinking water and the quality of the province's main water system, namely Baiyangdian, and the diversion of the Luan River. Forces throughout society should be further mobilized to protect and improve the ecological environment, and strive to fulfill environment protection goals and tasks.

#### **10. Strengthening of Socialist Democracy and Building a Legal System; Consolidating and Developing a Stable and Unified Political Situation**

The strengthening of socialist democracy and the building of a legal system are important assurances for the consolidation and development of a stable and unified political situation, and for the realization of long rule and enduring tranquillity. Governments at all levels

are to take the initiative in accepting legal supervision and work supervision from the NPC and its standing committee, diligently implement decisions passed by the NPC and its standing committee, and take the initiative in reporting to the NPC. They should further strengthen contacts with the CPPCC, all democratic parties, patriots having no party affiliation, and mass organizations, exercising to the full their role in participating in government, discussing politics, and engaging in democratic supervision. A high degree of attention should be given to handling suggestions, criticisms, and proposals from the NPC and the CPPCC, routinizing and systematizing acceptance of supervision and democratic and scientific decisions. Socialist democracy is to be strictly distinguished from bourgeois democracy. The building of socialist democracy must be strengthened to protect the democratic rights and interests of the citizens, while at the same time it is necessary to exercise high vigilance against and resolutely oppose an extremely small number of people who preach a bourgeois liberal trend of thought of so-called political pluralization and a multiple party system.

Socialist democracy must have a socialist legal system for support. We should continue to intensify the building of a government legal system, drawing up laws and regulations linked to realities in the province and centering around improving the economic environment and restructuring the economic order, deepening reform, and building clean government. We should continue to give attention to popularizing the law, devoting major efforts to spreading common knowledge of the law to heighten the concept of the law among the broad masses of cadres and the people. More should be done to improve administrative law enforcement, to strengthen law enforcement supervision and inspections, genuinely requiring reliance on the law, strict enforcement of the law, and punishment according to law. The "Administrative Procedural Law of the People's Republic of China" is to go into effect on 1 October 1990. Governments and departments at all levels should diligently study the administrative procedures law, preparing themselves before implementation, and they should take the initiative in coordinating work with people's courts.

Control of social order should continue to be intensified. Public security, people's armed police, and judicial departments should perform to the fullest their designated functions, closely coordinate with the courts and the procuratorate, exercise high vigilance and resolutely crack down on the destructive activities of domestic and foreign antagonistic forces. They should actively guard against and properly deal with all suddenly occurring incidents, nipping problems in the bud. They should crack down on serious criminal offenses and economic crimes in accordance with the law. They should organize timely special struggles and concerted attacks for different purposes and on different scales as required. They should strive to improve the political and professional qualifications, as well as the ability to handle cases of public security cadres and police. They should perform a



role as grassroots peace preservation, citizen investigation organizations, and as mass defense and mass control organizations. They should intensify comprehensive control over social order, and strengthen mass protective mechanisms for peace preservation including those for joint defense, factory protection, shop protection, school protection, and the protection of all kinds of basic facilities. They should safeguard public order in cities and the countryside to enable the people to live and work in peace and contentment.

More should be done to build grassroots political power. Full use should be made of the functions and role of township and town political power. The "Organizational Code" of Village Citizens' Committees and Residents' Committees should be diligently implemented, and conscientious efforts made to do more to build village and city and town street residents' committee leadership teams. Government at all levels should concern themselves with the work, study, and livelihood of grassroots cadres, helping them solve real problems. Diligent efforts should be made to enforce the "Nationalities Regions Autonomy Law," and the party's nationalities policies, to strengthen the unity of peoples of all nationalities throughout the province, to actively develop the economy, education, and cultural endeavors of national minority autonomous regions and places in which large numbers of national minorities live, and to strive to train minority cadres and people skilled in various specialties to advance the common prosperity of all minorities. The party's religion policies are to be put into practice, infiltration by antagonist forces guarded against, and normal religious practices safeguarded according to law. A good job is to be done in giving special care to, and in placing disabled servicemen, and family members of revolutionary martyrs and servicemen. More should be done to strengthen unity between the armed forces and the government and between the armed forces and the people, and a good job done in supporting the armed forces and caring for their dependents, supporting the government and loving the people, and in the joint building of spiritual civilization. Thorough education should be provided in national defense, and a good job should be done in building militia organizations, in building ideology, and in military training. The national defense concepts of everyone should be strengthened to make a new contribution to the building of national defense.

#### **11. Strive To Advance the Building of Socialist Spiritual Civilization, Steadily Improving the Quality of All the People**

We must earnestly assimilate the profound lessons of the last several years in alternating toughness with softness in the building of material and spiritual civilization. We must build and reform at the same time, vigorously intensify and improve ideological and political work, mobilize and organize the popular masses to use progressive, bright, and positive things to oppose and triumph over reactionary, dark, and negative things, strive to resolve confused ideas and apprehensions in people's thinking, eradicate all factors causing instability, maintain national and social stability

and unity, and promote the building of the economy, and the steady, coordinated development of all endeavors. It is necessary to carry forward the fine tradition of ideological and political work, to go down among the masses, to keep in touch with realities, steadfastly uphold education in the four basic principles and against bourgeois liberalization, education about international and domestic events, education in patriotism, collectivism, socialism, communism and self-reliance, and arduous struggle, and education in the revolutionary tradition, professional ethics, and social justice. Conduct thorough and solid campaigns to learn from Lei Feng, learn from Iron Man, learn from Lai Ning, and learn from the Liuzhuang Coal Mine. Continue to conduct campaigns for uniting the armed forces and the people, and the police and the people; and do a good job of building civilized villages and towns, and the building of mass self-governing organizations. Strive to train up a socialist new man possessed of ideals, virtue, culture, and discipline.

Marxist and socialist ideology must be used to occupy the ideological frontline. A policy of "one hand attending to restructuring and one hand attending to prosperity" should be diligently carried out, and the bourgeois liberalization concepts and trends of thought that have spread widely in recent years, such as the Western bourgeois philosophical concepts, political concepts, news concepts, and literature and arts concepts, as well as national nihilism, should be opposed and criticized. A thorough and protracted struggle should be carried out to "eliminate pornography" and eradicate the "six evils;" cultural markets should continue to be straightened out, odious things cracked down upon, feudal superstition opposed, and the social environment purified. Theoretical, literary and artistic, news, publication, archive, radio broadcasting, cinema, and television units should continue a socialist orientation that serves the people, energetically propagate the splendid national culture, actively borrow foreign cultural things of use to us, probe life and probe realities, continue to carry out a policy of letting a hundred flowers blossom and a hundred schools of thought contend, weed through the old to bring forth the new, and create more and better socialist spiritual products. In addition, a mass cultural campaign should be launched to enrich and invigorate the cultural life of the people, and to create a fine climate of public opinion and a fine cultural atmosphere to stabilize the overall situation.

On the health front, the emphasis should be on doing more to improve preventive health care and rural health work, a deepgoing patriotic health campaign launched. Positive actions should be taken to perfect the rural three-tier medical treatment and health organization, to organize city and town medical personnel to tour a circuit in the countryside to provide medical treatment by way of improving the rural shortage of doctors and medicines. Close attention should be given to the prevention and treatment of local illnesses, common illnesses, and frequently occurring illnesses. Medical treatment and health units should establish a psychology of wholeheartedly serving the people, improve medical



demeanor and medical ethics, and steadily improve the level of health of the people in the city and the countryside. Physical education activities should be actively conducted, and further impetus given to the promotion of mass athletic activities. This should be used as a foundation for improving the competitive level of all activities, and for doing a good job in all regards for the Asian Games to be held in Beijing and for the National Municipal Athletic Meet to be held in Hebei Province.

#### Delegates!

Realization of all the tasks we face will require greater resolve and efforts on the part of governments at all levels throughout the province, thorough implementation of the spirit of the Fifth Plenum of the 13th CPC Central Committee, and of the Ninth Plenum of the Third Provincial CPC Committee, further intensification of the building of clean government, genuine improvement of the workstyle of government agencies, close contacts with the masses of people, and efforts to improve the efficiency and quality of government work. The status of compliance with CPC Central Committee and State Council regulations on clean government, and the eight measures for clean government issued by the provincial government is to be diligently inspected and publicized, and the evaluation and supervision of the masses is to be accepted. Unhealthy tendencies in trades and industries are to be investigated and corrected, and energies are to be concentrated on the investigation and disposition of large and important cases. Abuses of authority by leading cadres, and by supervisory units and their personnel who are responsible for enforcing the law are to be rigorously investigated and disposed of, and a public report made of the investigation and disposition in cases involving the exchange of authority for money, corruption and bribe taking, misuse of authority for private gain, manipulating power for extortion, extravagance and waste, and on matters about which there is strong social reaction and public concern such as the use of public funds to decorate dwellings beyond permitted standards, abuses of authority and violation of the law and discipline to construct private houses, speculation and profiteering by official units, use of public funds for sightseeing and for lavish eating and drinking, as well as serious derelictions of duty and malfeasance. The "two opens and one supervision" system and the clean government responsibility system are to continue to be promoted and perfected. Pertinent rules and regulations and measures are to be established and perfected whereby the building of clean government is attended to all year round and systematized. Thinking style and work style should be changed to bring the government and the people closer together. The policy of coming from the people and going to the people should be upheld, building and perfecting a democratic and scientific policy making and policy enforcement system, insuring that policies and policy enforcement are in keeping with the interests of the people. Government leaders at all levels should regularly go down to the grass routes to mingle with the masses, performing their work in a realistic way. Right now, particular attention should be given to solving problems about which the

masses are most concerned and for which conditions permit solution, using practical acts to cement relations with the masses. All government workers must improve their theoretical grounding, diligently study Marxism, Mao Zedong Thought, and the works of Comrade Deng Xiaoping, study important party documents, uphold administration according to law, and steadily improve awareness about carrying out the party line, plans, and policies. Unified centralism and organizational discipline should be improved; actions and tendencies toward decentralism should be opposed and corrected; orders and prohibitions are to be enforced; government orders are to be carried out; improving the economic environment and restructuring the economic order, the deepening of reform, and all policies are to be safeguarded, and actions taken to implement them. The "mountain of documents and the sea of meetings" problem has to be solved, more done to make documents briefer and to reduce the number of meetings. Government agencies at all levels should diligently launch campaigns for "working with enthusiasm, working with alacrity, and doing a good job" to improve their work efficiency and quality. Government agencies at the county level and above throughout the province should diligently institute systems for having cadres go to the grassroots, and systems for participation in production labor, and they should stick to them for a long time. When cadres from official agencies go to the grass roots, they should work diligently, deal with concrete matters, observe discipline, and be honest, becoming bosom friends and leaders of the masses.

Delegates! Under leadership of the CPC Central Committee, the State Council, and the provincial CPC committee, the people of the whole province have advanced confidently into the decade of the 1990's. Though we still face numerous difficulties on the road ahead, socialism is filled with vigor and vitality, and it is a historically advancing tide that cannot be stopped. So long as we unite more closely around the CPC Central Committee with Comrade Jiang Zemin at its center, the whole province rousing itself to work hard with one heart and one mind, we will definitely be able to steadily win new victories in socialist modernization and reform!

## SOUTHWEST REGION

### Guizhou Reports Successes in Fighting Crimes

*HK1007050790 Guiyang Guizhou Provincial Service in Mandarin 2200 GMT 7 Jul 90*

[Text] Over the past month or so, various areas of Guizhou have achieved gratifying results in cracking down on serious crimes.

Guizhou launched her struggle aimed at cracking down on serious crimes on 25 May. By 25 June, Guizhou had captured more than 15,000 criminals, cracked and smashed more than 1,000 criminal groups, and captured stolen goods and money totaling more than 3 million yuan.

During the struggle, the broad masses of the people in Guizhou have also captured and turned over a group of criminals to public security organs at all levels. More than 400 criminals voluntarily turned themselves in to the public security organs. People's courts at all levels in Guizhou have held more than 100 public rallies to sentence criminals.

During the struggle, public security organs and political and judicial organs at all levels in the province have fully played their respective roles. All departments concerned in Guizhou have also closely cooperated with one another in carrying out the struggle. The broad masses of the police officers and policemen have demonstrated a strong sense of political responsibility and feared neither hardship nor death in the struggle. As a result, many heroic people have emerged and have been praised by the broad masses of the people during the struggle.

The Guizhou Provincial Office in Charge of Struggle Aimed at Cracking Down on Serious Crimes held a news briefing yesterday morning.

Hu Kehui, member of the Standing Committee of the Guizhou Provincial CPC Committee and concurrently secretary of the Political and Judicial Affairs Committee under the Guizhou Provincial CPC Committee, gave an account of the progress of Guizhou's struggle aimed at cracking down on serious crimes and made specific arrangements for the continuation of the struggle in the future.

## NORTHEAST REGION

### Jilin Improves Control of Firearms, Explosives

SK2906071090 Changchun Jilin Provincial Service  
in Mandarin 0930 GMT 28 Jun 90

[Text] The Jilin Provincial People's Government sponsored a telephone conference on 27 June on implementing the arrangements made by the State Council with regard to improving management of explosives, firearms, and ammunition.

During the telephone conference, Wu Yixia, vice governor of the province, delivered a speech in which he announced that the provincial People's Government has decided to concentrate on investigating and controlling explosives, firearms, and ammunition throughout the province. Focal points in the investigative activities are to thoroughly centralize control over units producing, storing, marketing, transporting, and using explosives, firearms, and ammunition; check and verify the transport, storage, usage, and management system of various firearms and ammunition; search in a broad way for missing explosives, firearms, and ammunition of various kinds; and improve control over the distribution range of firearms and ammunition and firearms' utilization. We should resolutely screen or ban plants and units which

are illegally producing, selling, and using explosive articles. Units which are not conforming to standards for producing, selling, and using explosives should be made to suspend their businesses and consolidated. Efforts should be made to carry out strict investigation and consolidation among small rural coal pits, mines, and fireworks plants. Those which have experienced accidents should be investigated and dealt with in line with the law. Efforts should also be made to carry out thorough investigation of firearms of various kinds, which are carried by unauthorized personnel, and thoroughly search for missing explosives, firearms, and ammunition. Those who privately or illegally possess explosives, firearms, and ammunition should readily hand them over to the local public security organs and those who refuse will be strictly punished.

In his speech, Wu Yixia emphatically pointed out that governments at all levels should regard the work as an important part of stabilizing society and earnestly do a good job and realistically carrying out the work.

### Liaoning Holds Forum on Promoting Yanan Spirit

SK2906005990 Shenyang Liaoning Provincial Service  
in Mandarin 2200 GMT 25 Jun 90

[Text] On the afternoon of 25 June, the Propaganda Department of the provincial party committee, and the provincial Research Center for Building Spiritual Civilization cosponsored a forum on promoting the Yanan spirit and on studying how to inherit and promote the Yanan spirit under the new historical conditions and how to make this spirit become a powerful spiritual strength in building socialism with Chinese characteristics. Veteran leaders and comrades who once struggled, worked, and lived in the revolutionary base of Yanan in those days, including Li Huang, Liu Yiyun, Liu Wen, Wei Zhi, Zhang Yan, (Zhou Hongzhi), (Ma Peide), (Ji Ning), (Yang Chunlan), and (Ui Zhi), were invited to the forum. In their speeches, these veteran comrades reviewed the revolutionary course of those days, and used their personal experience to expound their understanding of the Yanan spirit, conscientiously summed up the experiences and lessons of the past several decades in promoting the Yanan spirit, and explored methods and ways to inherit and promote the Yanan spirit under the new historical conditions.

Many veteran comrades said: The Yanan spirit has very rich implications, including the spirit of integrating theory with practice and seeking truth from facts, the spirit of maintaining close ties with the masses and serving the people wholeheartedly, the spirit of self-reliance and building an enterprise through arduous efforts, the spirit of submitting oneself to the overall situation and observing discipline strictly, the spirit of upholding the truth, correcting mistakes, and conducting criticism and self-criticism, and the spirit of fearing no sacrifices, eliminating difficulties, and winning victories. Comrade Zhang Yan and Liu Wen said: The revolutionary period was a time when relations between the

party and the masses and between the cadres and the masses were the best. At present promoting the Yanan spirit among party and government organs and the broad masses of cadres is of special significance in implementing the CPC Central Committee's decision on maintaining close ties with the masses of people. It is necessary to actively promote the Yanan spirit among the party-member cadres and to conduct education on the party's purpose and traditions and on the mass line, solve problems concerning the outlook on life and the world, build ideologically a great iron wall for resisting the corrosive influence of the bourgeois decadent ideas, and consciously perform official duties honestly, wholeheartedly serve the masses, and always maintain close ties with the masses.

Comrade Liu Yiyun said: During the Yanan period, the reason why our party, army, and the people could unite with one heart and mind under extremely difficult circumstances was that they had excellent virtues, and the mental state of working hard and making progress, a sense of strictly and consciously observing discipline, and a conviction of winning victory in the revolutionary cause. In short, they had the ideological and moral qualities of struggling for communism.

In his speech, Comrade Li Huang stressed: In any time, we should not discard the spirit of plain living and arduous struggle. Otherwise, we will not be able to achieve progress and development, and run into the danger of becoming corrupt, weak, and immoral. Over the past few years, the emergence of corrupt phenomena and the moral degeneration on the part of some people showed us in various negative examples that we must inherit and promote the Yanan spirit and the enterprising spirit of plain living and arduous struggle.

Comrades (Zhou Hongzhi), (Ma Peide), and (Ji Ning) said: The Yanan spirit is a valuable spiritual wealth of our party, army, and the people of our country and is a spirit for building and developing our country. Only by unswervingly inheriting and promoting the Yanan spirit, can we overcome all difficulties, stand all tests, including the changeable international situations, and triumphantly march towards the future.

Attending the forum were leading comrades of the provincial party committee, the provincial Advisory Commission, the provincial Discipline Inspection Commission, the provincial People's Congress Standing Committee, the provincial government, the provincial Committee of the Chinese People's Political Consultative Conference and the provincial-level departments concerned. Wang Chonglu, member of the Standing Committee of the provincial party committee and director of the Propaganda Department, gave a speech at the forum on correctly understanding the essence of and actively promoting the Yanan spirit.

### Quan Shuren Addresses Forum To Strengthen Ideology

*SK0307024190 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 30 Jun 90*

[Excerpts] The Organization Department of the provincial party committee held a forum to commemorate 1 July, the founding anniversary of the CPC and to learn from the deeds of Jiao Yulu and Han Yunna in Shenyang. More than 20 secretaries of the county and district party committees attending the forum expressed the sentiment that they would work in a down-to-earth manner, and take the lead in implementing the spirit of Jiao Yulu and Han Yunna.

Provincial leading comrades, including Quan Shuren, Yue Qifeng, Sun Qi, and Wang Chonglu, and Guo Feng, a member of the Central Advisory Commission, attended the forum. Shang Wen, member of the Standing Committee of the provincial party committee and director of the Organization Department, presided over the forum. [passage omitted]

The participating comrades issued a proposal to party-member cadres throughout the province on deeply carrying out activities to learn from Jiao Yulu and Han Yunna. [passage omitted]

Sun Qi, deputy secretary of the provincial party committee, addressed the forum. He stressed: Learning from Jiao Yulu and Han Yunna is necessary for implementing the guidelines of the sixth plenary session, further maintaining close ties between the party and the masses, and strengthening the party's cohesion, appeal, and fighting capacity. The essence of Jiao Yulu and Han Yunna can be summarized into the following: Being faithful to Marxism and Leninism; upholding the firm stand of following the socialist road and the spirit of a public servant; of wholeheartedly serving the people and selflessly dedicating oneself to work, the revolutionary spirit of pioneering one's career through plain living, and hard work; and of working indomitably and selflessly, the work style of seeking truth from facts and establishing ties with the masses, and the lofty values of being strict with oneself and performing one's official work honestly. To learn from Jiao Yulu and Han Yunna, we must grasp the essence of these spirits, and combine it with all of our current work—with the study of local advanced typical cases and with the work of strengthening the building of ideology—and the work style of leading cadres.

### Liaoning Addresses Lack of Anticrime Resources

*HK2806135390 Beijing RENMIN GONGAN BAO in Chinese 15 Jun 90 p 1*

[Article by Chen Xiangqi (7115 4382 4388): "Governments at All Levels in Liaoning Province Support the Drive To Sternly Crack Down on Criminal Activities in Terms of Manpower, Funds, and Materials"]

[Text] Since the struggle against serious criminal activities was carried out in an all-round way in Liaoning

Province, the public security organs of this province have encountered greater difficulties with respect of manpower, funds, and materials. In view of this situation, the party and government leaders at all levels throughout the province have adopted measures to support the struggle with manpower, funds, and materials.

The government of Benxi City has replenished the city's public security organs with 160 police and equipped various police substations with 19 vans and new telephones. Dandong City has mobilized nearly 10,000 people to join the security joint defense teams. The governments at the city and county levels in Yingkou have allocated 800,000 yuan of funds and 60 tons of low-priced gasoline to the public security organs. The party committee and government of Xibao township of Tieling County have raised 134,000 yuan to buy a new jeep, three motorcycles, and radiophones for the township police substations. All this has satisfied the pressing need of the public security organs in the drive to sternly crack down on criminal activities.

#### **Dandong City in Liaoning Targets Crime**

*SK2806060090 Shenyang Liaoning Provincial Service  
in Mandarin 0930 GMT 25 Jun 90*

[Text] Dandong City has won the very first battle in dealing strict blows to crime. In the early morning of 25 June, departments and units throughout the city made concerted efforts to encircle all black sheep into the net of justice.

Party committees and governments at all levels across the city have attached great importance on dealing strict blows to crimes and their principal leading personnel have taken personal charge of commanding the operation. The public security organs and bodies across the city have made concerted efforts and closely coordinated with each other in the operation so that they cracked down on a large number of major and appalling cases

within a short period of time, inspiring the fighting will of the masses and puncturing the arrogance of criminal elements

While dealing strict blows to crimes, Dandong City has also done a good job in consolidating public security in a comprehensive way. Both urban and rural areas across the city have enhanced the public security management at key areas and public places and brought about an obvious turn for the better in social peace by forming the mass-defense and mass-[words indistinct] organizations, such as workers' joint-defense teams, the advisory teams of (?protecting labor forces), full-time public security teams, and voluntary patrol teams.

#### **Liaoning Conducts Training of Senior Intellectuals**

*SK2806041990 Shenyang Liaoning Provincial Service  
in Mandarin 2200 GMT 26 Jun 90*

[Text] Our province has scored achievements in conducting training among party-member senior intellectuals. The provincial party committee has attached great importance to holding political training classes for party-member senior intellectuals. Since November 1989, it has held four classes in stages and in groups in its party school with the participation of 150 party-member senior intellectuals.

By regarding as guidance the speeches of Comrades Deng Xiaoping and Jiang Zemin and the spirit of the Fifth and Sixth Plenary Sessions of the 13th CPC Central Committee, the classes have conducted education among party-member senior intellectuals on the basic theories of Marxism and the party's basic line and knowledge. These training classes have enabled party-member senior intellectuals to unify their thinking, upgrade their understanding, clearly distinguish right from wrong, heighten their spirit, and further strengthen their belief in Marxism and Communism and their confidence in building socialism with Chinese characteristics. These training classes have aroused a strong response among the broad masses of intellectuals who contend that having attending study classes in the party school represents the care and concern of the party organizations. At present, various localities throughout the province are providing training opportunities in a step-by-step and planned manner for party-member senior intellectuals.

**Taiwan, PRC Red Cross To Cooperate Directly**  
*OW2406201690 Beijing in English to East and South  
Africa 1700 GMT 21 Jun 90*

[Text] Red Cross societies from Taiwan and the mainland have agreed to cooperate directly to help people visiting

relatives on the opposite sides of the Taiwan Strait. Newspaper reports from Taiwan say an agreement was reached early this month when two Taiwan Red Cross officials visited the mainland for consultations with their counterparts. The two sides agreed that there was no longer work through a third party in conducting such matters.

### Li Teng-hui Consults Private Think Tanks

90CM0252B Taipei TZULI WANPAO in Chinese  
16 May 90 p 2

[Article by Huang Qinglong (7806 3237 7893): "President Li Teng-hui's Think Tanks"]

[Text] Presidential palace spokesman Yu Chin-yi [6726 6651 4135] said this morning that when President Li Teng-hui [2621 4098 6540] considers major national policies, he is always given advice by private think tanks, the most important being the Center for International Relations at Chengchi University, Chunghua Economics Research Institute, and the Taiwan Economics Research Institute. The private National Policy Research Center also regularly supplies President Li Teng-hui with materials.

Meeting with lawmakers yesterday, President Li Teng-hui said that four groups serve as his private think tanks. These groups are distinct from the administrative system. He meets with them every week to discuss pertinent issues.

President Palace spokesman Yu Chin-yi pointed out that President Li Teng-hui often consults with the Center for International Relations at Chengchi University on foreign policy issues and mainland policy. As for economics, he usually seeks advice from the Chunghua Economics Research Institute headed by Chiang Shochieh [5592 4311 0267] and the Taiwan Economics Research Institute headed by Liu Tai-ying [0491 3141 5391]. Since the mainland policy often involves economics as well, the Chunghua Economics Research Institute and Taiwan Economics Research Institute may also offer advice on the mainland issue.

Yu Chin-yi said that the National Policy Research Center, founded by the Chang-Jung Group, also sends materials to the presidential palace for President Li Teng-hui's reference because the president and Chang Jung-fa [1728 2837 4099] are good friends. The same is true for the 21st Century Fund.

Yu Chin-yi said the private think tanks mentioned above have been coming up with ideas on a range of issues since Li Teng-hui assumed the presidency. However, if and when the president decides a certain issue must be looked into, he would go to a Cabinet ministry. What private research groups do is merely to take the initiative to provide suggestions occasionally.

### Unofficial Offices Facilitate PRC-Taiwan Contacts

90CM0168A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90 pp 38-39

[Article by Jen Chen (0117 4176): "People From Both Sides of the Strait Establish Nongovernment Agencies"]

[Text] The Taiwan Strait has separated the people from both sides for almost 40 years. Now these people can

finally get to understand a little more about each other. Except to visit relatives, however, people on one side have little open or direct communication with the other. In a situation like this, is it possible to build a bridge directly connecting both sides; which is to say, establish intermediary agencies to deal with the communication between these people?

Not long ago, the Taiwan Legal Studies Center in Fujian, Office of Taiwan Affairs, and the Taiwan Legal Research Institute in Fuzhou held a "seminar to study the issue of establishing intermediary agencies on both sides of the strait." Over 20 scholars and specialists participated in the seminar. The participants had an extensive discussion and gave some opinions.

A few days ago, I paid a visit to Mr. Song Jun, one of the organizers of this conference and the deputy director of the Taiwan Legal Studies Center in Fujian.

### The Time for Establishing Intermediary Agencies Is Right

During the past few years, the relations between Taiwan and China have progressed very fast. There are many unofficial dealings, particularly in economics and trade. The amount of indirect trade between the two sides continues to grow, and investment from Taiwan has increased sharply. But the relations between the two sides has also run into many difficulties: problems dealing with such matters as property inheritance, marital status, adoption of children, economic/trade information and service, economic conflicts, and the protection of consumer legal rights.

"Under such circumstances, it is necessary to have some intermediary organizations to help with communication and to improve the relations between both sides," said Song Jun.

Sung Jun thought that, from a practical point of view, establishing intermediary agencies is a plausible thing to do. It is said that Taiwan newspapers have studied the issue of creating an intermediary agency. Some suggested a "China Relations Foundation" with branch offices to be established in Beijing, Shanghai, and Xiamen. Some suggested a "China Relations Coordinating Society." Others said that business sectors from both sides could establish a "Business Coordinating Society." The Executive Council in Taiwan has drawn up "Temporary Rules Concerning the Relations Between the People in the Taiwan Region and the Mainland (Draft)." That draft has corresponding rules about intermediary agencies. Taiwan lawyer Lu Jung-hai and Fujian lawyer Tan Chengzhu have combined efforts and established a legal firm that is already in business.

### The Issue of Intermediary Agencies Has Caught the Attention of Communist China

Song Jun revealed to me that the issue of establishing intermediary agencies on both sides of the strait has attracted the attention of relevant government offices

and scholars in the mainland. Coastal cities in Guangdong and Fujian plan to establish an "investment and trade consulting company" and a "mediating company" as some sort of intermediary agencies to deal with economic and trade issues.

On the whole, it is a good time to establish intermediary agencies on both sides.

#### **To Solve Economic and Legal Problems and To Develop Contacts**

Most of the problems that occur in the association between the people from both sides can be categorized as economic and legal problems.

Because of this characteristic, intermediary agencies can be divided into economic and legal types. Song Jun said: "Intermediary agencies for economic activities shall provide economic and trade services, such as furnishing economic and trade information and introducing partners for trade and investment, and so forth. Intermediary agencies for legal matters will provide services on legal information. They can provide legal documents and answer any legal questions concerning property inheritance, investment, trade, disputes, labels, patents, and copyrights.

Sung Jun pointed out: "It is, of course, impossible to have one intermediary agency that can cover every topic. The scope of the first agency is to provide workable solutions for some urgent problems. After we accumulate some experience, we will extend our work accordingly."

He thought that having intermediary agencies is good for accomplishing things that cannot be easily done by direct contact, and for solving problems that are impossible to deal with at the moment. Because these intermediary agencies can promote communication among the people, there will be more mutual contact. This will move both sides closer to each other, promote "three contacts," and help speed up the uniting of China.

#### **Where Should Intermediary Agencies Be Established?**

Where is the best place to establish intermediary agencies and how should we go about starting them? There were enthusiastic discussions at the "seminar to study the issue of establishing intermediary agencies on both sides of the strait." All experts and scholars expressed different opinions and made many suggestions. Sung Jun summarized the suggestions as follows:

- There should be corresponding organizations in the mainland and on Taiwan, such as an organization that deals with notaries and legal matters.
- The mainland and Taiwan should establish their own intermediary agencies related to each other, then combine and establish their headquarters in Hong Kong as the general communication center, which will create a network for intermediary agencies.

—Make Hong Kong and intermediary point, and Taiwan and the mainland can establish their intermediary organizations there.

—The mainland and Taiwan should establish their headquarters for intermediary agencies in Hong Kong, and have branch organizations or offices in the mainland and Taiwan.

—Taiwan and the mainland should establish their own intermediary agencies and have corresponding branch offices on the other side.

—Hong Kong becomes the intermediary point. Mainland, Taiwan, and Hong Kong combine and establish relevant intermediary agencies.

—Ask Hong Kong people from the business, industrial, and legal sectors to help establish relevant intermediary agencies. Taiwan and the mainland will communicate and contact through these agencies.

#### **"The Unofficial Sectors" Come Out To Organize With "Official" Backing**

At this point, all existing intermediary organizations on both sides are unofficial.

"Most experts and scholars agreed that this is the case with intermediary agencies," Sung Jun explained further. "To a certain extent, these organizations are unofficial in name only, because they all have to have approval from the 'officials.' That is, they are 'unofficial organizations' at the front, but the sponsor behind the scene is 'official.'"

#### **Intermediary Agencies Are Unofficial**

When we talked about the characteristics of these intermediary agencies, Sung Jun said: The unofficial nature of these establishment has certain characteristics. First, they can solve practical problems and they have a clear focus. Second, these intermediary agencies do not have a wide scope and are not meant to cover everything. Third, they have the authority and they are trusted by the public. Fourth, they are "officially" recognized or acknowledged.

#### **"The Officials" Should Take the Initiative and Promote Action**

The establishment of intermediary agencies on both sides is essential to the various associations among these people. Their establishment and development of these agencies are definitely controlled by the relations between the two sides. Therefore, it is important that the "officials" recognize these intermediary agencies.

Sung Jun thought that if the intermediary agencies are not "officially" recognized, then their existence will be in name only. They will not be able to function properly. Therefore, the Chinese and Taiwan Governments should take a more positive attitude. They should approve these agencies, as long as these agencies are beneficial to the



communication between people on the two sides, and so long as they do not hinder unity.

He also pointed out, "When it comes to the relations between the two sides, Taiwan has both a positive and negative attitude." Taiwan recognizes only one China. Portions of the Temporary Rules Concerning the Relations Between the Two Sides are quite positive, such as the regulations concerning intermediary agencies. He hoped Taiwan could look at the larger picture of unity and be more

positive in supporting the establishment of intermediary agencies on both sides of the strait. Mainland China, while insisting on one China and PRC as the sole legal representative of the nation, should have more flexibility. The government should understand that there are differences in the social, economic, and legal systems between the two places. The Chinese Government should be more practical and recognize the intermediary agencies from Taiwan. The government ought to offer them welcome and give them assistance, while sticking to its own principles.

**Poll Shows Resurgence of Public Confidence**

90CM0250B Hong Kong MING PAO in Chinese  
14 May 90 p 2

[Text] The political confidence index of the people of Hong Kong has rebounded from the nadir it reached after the drafting committee met in Beijing last February to approve the Basic Law, rising nine points to regain its pre-Basic Law level, according to the latest survey by the Hong Kong Market Research Organization. This shows that the people of Hong Kong have very quickly "cast their trouble to the wind."

In the February survey, the political confidence index plunged nine points, from 88 in January to 79, the lowest in five years, even lower than the 82 points recorded around the time of the 4 June incident.

The survey, commissioned by this newspaper and carried out by the Hong Kong Market Research Organization, was conducted from 19-30 of last month [April]; 1,016 individuals ranging in age from 15 to 64 were chosen, using random sampling methods, and were interviewed by telephone.

The survey shows that the people of Hong Kong are very sensitive to political events affecting China and Hong Kong. When faced directly with a serious political setback, they lose confidence quickly. In no time, however, they would regain their confidence, set aside their worry, and continue their old way of life.

On the future of Hong Kong, 62 percent of the interviewees expressed optimism, two percent more than in the January survey. In comparison, professionals, administrative personnel, and business people were more pessimistic—only 44 percent said they were optimistic, down five percent from January.

Economic confidence, on the other hand, is headed upward, with the economic confidence index rising from 90 points in January to 92. This shows that since 4 June the people of Hong Kong have gradually recovered their confidence in the economy.

Nineteen percent of the interviewees, or three percent more than in the January survey, expressed optimism about the current state of the Hong Kong economy, while 18 percent said the economy had deteriorated, down seven percent. The remaining 63 percent thought the economic situation was "all right."

Professionals and administrative personnel have also become less worried about the Hong Kong economy, with 22 percent expressing optimism, up seven percent compared to the previous survey. The proportion of people who believed the economy was in bad shape had also dropped significantly, by 13 percent, to 20 percent.

The people of Hong Kong remain guardedly optimistic about the economic prospects this year and only 18 percent of the interviewees thought the economy would

improve. The proportion who thought the economy would deteriorate has dropped to 34 percent, to the pre-4 June level.

**Poll Reveals Perception of Government Performance**

90CM0250A Hong Kong MING PAO in Chinese  
22 May 90 p 3

[Text] According to an opinion poll conducted by the General Affairs Administration in March, of 1,661 people successfully interviewed, 11 percent believed the government had handled the issue of the "future of Hong Kong" well and 24 percent thought that the government had worked very hard to solve the problem, both down significantly from January (when the corresponding figures were 18 and 35 percent, respectively).

The interviewees noted that the government had done best in these three areas in the last six months: "traffic, roads, or the tunnel project" (23 percent), "Vietnamese refugees and boat people" (21 percent), and "the future of Hong Kong and its political system" (21 percent). During the same period, the government was said to have done poorly in the following three areas: "Vietnamese refugees and boat people" (35 percent), "the economy and inflation" (12 percent), and "traffic, roads, or the tunnel project" (11 percent).

Some 52 percent of those interviewed were confident Hong Kong would continue to enjoy prosperity and stability, lower than the figure in the January survey (58 percent), while those who expressed a lack of confidence (39 percent) were up six percent.

Sixteen percent of the interviewees said they planned to or had taken action to emigrate overseas, about the same proportion as in January.

Asked if "accelerating the democratization of the political system of Hong Kong will increase the confidence of the Hong Kong in its future," 59 percent of the interviewees agreed, lower than the January figure (66 percent).

Thirty-five percent of the interviewees rated overall government performance as good, lower than the January figure of 43 percent. At the same time, the proportion of interviewees who thought civil servants had a good work attitude dropped from 33 percent in January to 29 percent.

Referring to the future of Hong Kong, 39 percent indicated a "lack of confidence," 29 percent mentioned the "restoration of Chinese sovereignty in 1997," 19 percent expressed concern about the "brain drain," and 12 percent noted that "Hong Kong has not yet achieved democracy or that there is no safeguard for freedom." These figures are basically the same as the results of the previous three polls. With reference to traffic-related issues, the proportion of interviewees who mentioned